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ACCOUNTS COMMITTEE AGENDA

Friday, 25 September 2015 at 10.00 am at the Blaydon Room - Civic Centre

From the Chief Executive, Jane Robinson

Item	Business
1.	**Apologies**
2.	**Minutes** (Pages 1 - 2) The Committee is asked to approve as a correct record the attached minutes of the meeting held on 30 September 2014.
3.	**Audit Completion Report Year ended 31 March 2015 and Gateshead Council Statement of Accounts 2014/15** (Pages 3 - 132) Report of the Strategic Director, Corporate Resources

Contact: Mike Aynsley email: michaelaynsley@gateshead.gov.uk, Tel: 0191 4332128,
Date: Thursday, 17 September 2015

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ACCOUNTS COMMITTEE

29 SEPTEMBER 2014

PRESENT: Councillor M Henry (Chair)
Councillors M Gannon and F Hindle

AC1. MINUTES

The minutes of the last meeting of the Committee held on 30 September 2013 were approved as a correct record and signed by the Chair.

AC2. AUDIT COMPLETION REPORT FOR THE YEAR ENDED 31 MARCH 2014 AND GATESHEAD COUNCIL STATEMENT OF ACCOUNTS 2013/14

Consideration was given to Mazars' Audit Completion Report, including the Council's arrangements for securing economy, efficiency and effectiveness

The report's key messages are:

- Audit Opinion - Mazars has issued an unqualified opinion on the Statement of Accounts, meaning that it is free from material error and has been prepared In accordance with proper practice.
- Use of resources – The Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

The report also includes a Letter of Representation to Mazars', to be approved by the Committee prior to being signed by the Strategic Director, Finance and ICT.

The Statement of Accounts is materially consistent with the 2013/14 revenue and capital outturn reports considered by the Cabinet. It also includes additional reserves movements approved in the MTFS review of reserves. Along with minor adjustments and presentational changes, a number of the following adjustments have been made to the Statement submitted for audit on 30 June 2014:

- **Depreciation:** The depreciation charge was reduced by £1.179m as a depreciation charge had been incorrectly applied to the land component of some of the Council dwellings. There was a corresponding increase to the revenue contribution to capital expenditure within the HRA to ensure there was no overall impact on the HRA balance.

- **Dwelling valuations**: The capital charges to the Comprehensive Income and Expenditure Statement relating to Council dwellings were reduced by £4.862m as the formula within the asset register had incorrectly excluded the impact of property disposals the from the revaluation calculation and had therefore overstated the original valuation movement.

- **Revaluations**: An error in the revaluation gain for three of the Council's assets, primarily the Sage Gateshead, which charged the gain in full to the revaluation reserve rather than being used to reverse a prior year revaluation loss that had previously been charged to the Cost of Services within the Comprehensive Income

and Expenditure Statement. A total of £6.850m was moved from Other Comprehensive Income to Cost of Services within the Comprehensive Income and Expenditure Statement.

- **Grants**: Two grants, Public Health (£15.401m) and NHS social care contributions (£4.056m) were treated as unringfenced grants. These were reclassified as service-specific grants and moved within the Cost of Services within the Comprehensive Income and Expenditure Statement. In addition, an element of the Dedicated Schools Grant (£7.338m income and expenditure) was accounted for twice.

- **Provision for business rates appeals**: £1.656m was reclassified from bad debt provisions (part of the debtors' balance) to short-term provisions on the Balance Sheet.

- **Airport loan notes interest**: £0.664m interest receivable within 12 months was originally included within long-term debtors. It has been revised to be included within short-term debtors.

The net effect of the above changes increases the value of the Balance Sheet by £6.041m (due to the reduction in the 2013/14 depreciation charge and revised revaluation figure). None of the changes to the Statement of Accounts impact on the revenue and capital outturn positions reported to Cabinet, nor do they affect the position of any usable reserves.

RESOLVED -

(i) That the contents of Mazars' Audit Completion Report Year ended 31 March 2014 and Gateshead Council Statement of Accounts 2013/14 be noted.

(ii) That the issue of the Letter of Representation by the Strategic Director, Finance and ICT on behalf of the Council be approved.

(iii) That the Council's Statement of Accounts for 2013/14 be approved for publication.

Gateshead Council

ACCOUNTS COMMITTEE
25 September 2015

TITLE OF REPORT: **Audit Completion Report Year ended 31 March 2015 and Gateshead Council Statement of Accounts 2014/15**

REPORT OF: **Darren Collins, Strategic Director, Corporate Resources**

Purpose of the Report

1. This report requests that the Accounts Committee:
   - note Mazars' 2014/15 Audit Completion Report (Appendix 2), including the Council's arrangements for securing economy, efficiency and effectiveness;
   - approve the issue of a Letter of Representation (Appendix 3); and
   - approve the publication of the Council's 2014/15 Statement of Accounts (Appendix 4).

Background

2. The annual audit of the Council's Statement of Accounts and use of resources has now been completed for 2014/15 and Mazars LLP has issued its report.

3. The Audit Completion Report covers:
   - the Council's Statement of Accounts; and
   - the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

4. In line with best practice the Audit and Standards Committee has considered the Audit Completion Report prior to submission to this Committee and comments and issues raised have been circulated.

Proposal

5. The proposal is for the Accounts Committee to note comments from the Audit and Standards Committee, note the contents of Mazars' Audit Completion Report including arrangements for securing economy, efficiency and effectiveness, approve the issue of the Letter of Representation by the Strategic Director, Corporate Resources on behalf of the Council, and approve the Council's 2014/15 Statement of Accounts for publication.

Recommendations

6. The Accounts Committee is requested to:

- note any comments from the Audit and Standards Committee
- note the contents of Mazars' Audit Completion Report and the covering report;
- approve the issue of the Letter of Representation by the Strategic Director, Corporate Resources on behalf of the Council; and
- approve the Council's 2014/15 Statement of Accounts for publication.

for the following reason(s)

(i) to comply with legal requirements and the Council's Constitution.

CONTACT: Darren Collins, x3582

Appendix 1

Policy Context

1. The proposals in this report are consistent with Vision 2030 and the Council's Corporate Plan. In particular, they contribute to achieving a sustainable financial position over the life of the Council Plan and the Medium Term Financial Strategy (MTFS).

Background

2. The annual audit of the Council's 2014/15 Statement of Accounts has now been completed. Mazars LLP is required to:
   - Issue a report to those charged with governance summarising its conclusions from their audit work by 30 September 2015;
   - Report to those charged with governance certain matters before giving its opinion on the financial statements; and
   - Issue a conclusion relating to proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

3. The report covers:
   - The Council's financial statements; and
   - The Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Audit Completion Report

4. Mazars' Audit Completion Report is included as Appendix 2 to this report. The key messages are as follows:
   - Audit Opinion - Mazars has issued an unqualified opinion on the Statement of Accounts, meaning that it is free from material error and has been prepared in accordance with proper practice; and
   - Use of resources – the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

5. The report also includes a Letter of Representation to Mazars, to be approved by the Committee prior to being signed by the Strategic Director, Corporate Resources, attached as Appendix 3.

6. The 2014/15 Statement of Accounts, amended for any adjustments identified during the audit, is shown at Appendix 4. The Statement of Accounts is materially consistent with the 2014/15 revenue and capital outturn reports considered by Cabinet 23 June 2015. Along with minor adjustments and presentational changes, the following adjustments have been made to the Statement submitted for audit on 30 June 2015:

- **Short-term debtors / creditors:** the creditors balance was increased by £0.708m due to the inclusion of a small number of debtor balances. This also required the debtors balance to be increased by this figure;
- **Long-term / short-term debtors:** £0.684m interest relating to a Newcastle Airport loan was incorrectly treated as long-term, rather than being split between amounts due within and beyond one year;
- **Better Care Fund grant**: the £5.194m grant was received as part of the Local Government Finance Settlement during 2014/15, and as such was treated as an un-ringfenced / general grant within the Comprehensive Income and Expenditure Statement. It was subsequently reclassified as a service-specific grant as it relates solely to Social Care, and was moved within the *Cost of Services;*
- **Revaluations**: a former school site was incorrectly treated as a surplus asset, when it should have been classified as operational property. This resulted in a £1.741m adjustment between *Planning Services* and *Cultural and Related Services* within the Comprehensive Income and Expenditure Statement; and
- **Disclosure amendments**: in addition to the above, the Statement of Accounts was also amended for a number of minor errors, clarifications or inconsistencies within the Notes to the Accounts.

7. None of the changes to the Statement of Accounts impact on the revenue and capital outturn positions reported to Cabinet, nor do they affect the position of any usable reserves. Management have agreed to amend the Statement of Accounts to reflect the adjustments.

Consultation

8. There has been no external consultation on this report.

Alternative Options

9. There are no alternative options proposed. The Council is obliged by statute to publish the Statement of Accounts.

Implications of Recommended Option

10. **Resources:**

a. Financial Implications – The Strategic Director, Corporate Resources confirms that the financial implications are as set out in this report and in the 2014/15 Statement of Accounts. There are no additional financial implications associated with the report itself.

b. Human Resources Implications – There are no human resources implications arising from this report.

c. **Property Implications –** There are no property implications arising from this report.

11. **Risk Management Implication –** no additional risks have been identified in this report or in the completion of the 2014/15 Statement of Accounts.

12. **Equality and Diversity Implications –** There are no equality and diversity implications arising from this report.

13. **Crime and Disorder Implications –** There are no crime and disorder implications arising from this report.

14. **Sustainability Implications –** There are no sustainability implications arising from this report.

15. **Health Implications -** There are no health implications arising from this report.

16. **Human Rights Implications –** There are no human rights implications arising from this report.

17. **Area and Ward Implications –** There are no area and ward implications arising from this report.

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Audit Completion Report

Gateshead Council – year ended March 2015

September 2015

MAZARS

Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

The Accounts Committee
Gateshead Council
Civic Centre
Regent Street
Gateshead
NE8 1HH

X September 2015

Dear Members

Audit Completion Report – Year ended 31 March 2015

We are delighted to present our Audit Completion Report for the year ended 31 March 2015. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and areas of management judgement was outlined in our Audit Strategy Memorandum which we presented on 20 April 2015. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and areas of management judgement remain appropriate.

We would like to take this opportunity to express our thanks to your officers for their assistance during the course of our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07979 164467 or gareth.davies@mazars.co.uk

Yours faithfully

Gareth Davies
Partner
Mazars LLP

Contents

01 Executive summary

Purpose of this document

This document has been prepared to communicate the findings of our audit for the year ended 31 March 2015 to the Accounts Committee of Gateshead Council and forms the basis for discussion at the meeting on 25 September 2015.

Our communication with you is important to:

- share information to assist both the auditor and those charged with governance to fulfil our respective responsibilities;
- provide you with constructive observations arising from the audit process;
- ensure, as part of the two-way communication process, we gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Gateshead Council;
- receive feedback from you on the performance of the engagement team.

As outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK and Ireland) which means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement. Section 2 of this report includes our conclusions on the significant risks and areas of management judgement that we set out in our Audit Strategy Memorandum.

We also set out details of internal control recommendations in section 3 and a summary of misstatements discovered as part of the audit in section 4.

Status and audit opinion

We have substantially completed our audit of the financial statements for the year ended 31 March 2015.

At the time of preparing this report, the following matters remain outstanding:

Area outstanding	Work to be completed
Comprehensive Income and Expenditure Statement	Work is ongoing in a small number of areas.
Loans and Investments	We are still awaiting one external confirmation.
Pension Fund auditor assurance	We need to consider the findings of the Pension Fund auditor when this is received.
Other Areas	There are a small number of other areas where detailed work is still ongoing, for example Financial Instruments. Officers are aware of these.
Closure procedures	Our standard closure procedures, including review of the revised financial statements and consideration of post balance sheet events.

We will provide an update to you on these outstanding matters in the form of a letter to the Accounts Committee.

Subject to the satisfactory conclusion of the remaining audit work, we anticipate:

- issuing an unqualified opinion, without modification, on your statement of accounts; and
- concluding that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We also anticipate completing our work in respect of your Whole of Government Accounts submission in line with the group instructions issued by the National Audit Office by the deadline of 2 October 2015.

Our proposed audit report is as set out in Appendix B.

02 Significant findings

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding the significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 8 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

Management override of controls

Description of the risk

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk through performing audit work over:

- accounting estimates impacting amounts included in the financial statements;
- consideration of identified significant transactions outside the normal course of business; and
- journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention

Revenue recognition

Description of the risk

There is a risk of fraud in the financial reporting relating to revenue recognition due to the potential to inappropriately record revenue in the wrong period. Due to there being a risk of fraud in revenue recognition we consider it to be a significant risk on audits.

How we addressed this risk

We addressed this risk through performing audit work over:

- cash receipts in the months of February, March, April and May 2015 to ensure they have been recognised in the right year;
- testing adjustment journals; and
- for major grant income, obtain counterparty confirmation

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention

Pension liability

Description of the risk

There is considerable uncertainty over the estimate of the local government pension scheme liability.

How we addressed this risk

We assessed the work of the Council's actuary and confirmed that the disclosures in the financial statements properly reflect the actuary's report.

We liaised with the pension scheme auditor, in line with Audit Commission requirements and carried out procedures as appropriate.

Audit conclusion

Subject to review of the response from the local government pension scheme auditor, our audit has provided the assurance we sought, and not highlighted any issues in this area to report.

Fixed asset module implementation

Description of the risk

The Council implemented a new Fixed Asset register in March 2015. The nature and size of the Council's asset base meant that there was the potential for a material misstatement in the 2014/15 financial statements.

How we addressed this risk

We discussed with key contacts involved in the migration process.

We also:

- evaluated the management controls you had in place to manage the migration process;
- reviewed and tested to ensure that the transfer of data was migrated successfully; and
- substantively tested all material movements at year end.

Audit conclusion

Our work has not identified any material issues with the implementation of the new Fixed Asset register.

Bank change and cash receipting

Description of the risk

The Council changed banks during the year. In addition, the Council's automated third party system for income management and internal miscellaneous income allocation system were both subject to major upgrades. Following the changeover, there was an issue with the automated process for allocating income received at the bank to individual income funds at the Council and this had to be completed manually. This led to a delay in completing the bank reconciliations which is a fundamental control in terms of the Council's operations, the control environment and for the prevention and detection of material errors or frauds. As at the end of February, the December bank reconciliation had been completed and only January's was outstanding. Both the January and February reconciliations were completed in March and the year-end bank reconciliation was completed within the deadline.

How we addressed this risk

We discussed progress with key contacts involved in the bank reconciliations.

We also:

- closely monitored progress on the completion of the bank reconciliation and discussed any significant or material unreconciled amounts; and
- substantively tested the year end bank reconciliation.

Audit conclusion
Our testing identified that the Council introduced temporary compensating controls, (e.g. manual input) to help mitigate the risk of material error and fraud and we have concluded that –

- the bank reconciliation process is up to date;
- the automated process for allocating income received at the bank to individual income funds at the Council is operating as expected; and
- we did not identify any issues as a result of our work.

South Tyne and Wear Waste Management Partnership PFI service commencement

Description of the risk
The South Tyne and Wear Waste Management Partnership was established to enable Gateshead, South Tyneside and Sunderland Councils to jointly procure a solution for the treatment and disposal of residual municipal waste. In April 2011, the Partnership, led by Gateshead Council, signed a £727m PFI contract with a consortium led by SITA UK.

Service commencement was on 22 April 2014 meaning that the unitary charge associated with using the asset will become payable from the 2014/15 financial year and is based upon the volumes of waste provided by each council.

Due to the complexity in this area there was a risk that amounts would be materially misstated in the accounts.

How we addressed this risk
We assessed whether the Council had accounted for and disclosed its 2014/15 commitments in line with technical guidance

Audit conclusion
Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention. We did identify a small number of non-trivial disclosure errors which have subsequently been amended.

Accounting for schools

Description of the risk
CIPFA issued guidance to Councils for 2014/15 in relation to the assessment and subsequent accounting for schools assets. We discussed this guidance with officers to identify the Council's intentions in relation to the recognition of maintained schools assets in the 2014/15 financial statements.

How we addressed this risk
We assessed the robustness of the Council's conclusion in relation to the treatment of the assets of maintained schools including substantive testing of detail.

Audit conclusion
Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention

Property, plant and equipment
Description of the area of judgement Valuations of these assets, in particular of land and buildings, require work from an expert valuer. Valuations of buildings must reflect both the condition of the building but also the valuation basis for that class of building as required by the CIPFA 'code'. We identified material errors in 2013/14 and there is a material risk of misstatement in 2014/15.
Our audit approach We: • examined the professional qualifications of your valuer • challenged and substantiated the assumptions and the appropriateness of the date of the valuation used by your valuer in completing the valuations. • ensured that valuations and impairments were completed on the correct basis for each item and that movements were in line with expectations. • assessed whether the report produced by the valuer had been correctly reflected in the accounts.
Audit conclusion Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention

Accounting policies and disclosures

We have reviewed Gateshead Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management and officers.

03 Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below.

We have not identified any significant deficiencies as a result of our work this year.

A small number of minor control issues have been reported to Management.

Follow up of previous internal control points

We did not raise any internal control points in the prior year.

IT audit review

The objective of this work was to evaluate the controls in place over the IT environment (applications and underlying infrastructure), by:

- Understanding the IT environment, applications, interfaces and related controls; and
- Assessing the design and operating effectiveness of the controls in place over the main processes:
  - physical security;
  - backup and disaster recovery;
  - access management; and
  - change management.

Our work concluded that reliance can be placed on the IT General Controls operating over the systems identified as material for the 2014/15 financial audit and the underlying infrastructure.

No significant issues were identified that could have an impact on the financial accounts; however we made improvement recommendations on:

- reviewing the disaster recovery plan, data classification and secondary site location in order to mitigate the risk of data loss;
- involving business users in the testing of data restoration and disaster recovery to mitigate the risk of incomplete or inaccurate data restoration;
- improving password policies, user access management and periodic user review processes to ensure access is appropriately restricted to the Council's systems and network; and
- relocating the Data Centre in order to mitigate physical and environmental risks.

Relevant action plans have been established by the Council in order to address the identified risks.

04 Summary of misstatements

We set out in the table below the misstatements identified during the course of the audit, above the trivial level, all of which have been adjusted by management during the course of the audit.

Adjusted misstatements 2014/15

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Creditors balance and Note 23				**708**
	Debtors balance and Note 22			**708**	
	Our work identified debit balances were included in creditors				
2	CIES- Revenue grants, non specific grants, other grants	**5194**			
	CIES- Revenue grants specific grants – Adult Social Care Income		**5194**		
	Amount currently credited to non specific grants. It should be shown against Adult Social Care as a specific grant.				
3	CIES - Planning Services Expenditure		**1741**		
	CIES Cultural and Related Services Expenditure	**1741**			
	Revaluation losses were incorrectly charged to Planning Services rather than Cultural and Related Services.				
4	Long term debtors - Bodies external to Government				**684**
	Short term debtors- Bodies external to Government			**684**	
	Accrued interest on the long term airport debtor should be classified as short term as it is due to be received in the next 12 months.				

Disclosure amendments

The main disclosure issues identified during the course of the audit are outlined below, all of which have been amended by management:

- Provisions (Note 24) - One error noted in the disclosure note relating to Business Rate Appeals: The payment and setting up of the new provision should be disclosed in note 24 but it is currently not shown. It should show £1,132k payments and £1,132k new provision
- Employee Benefits (Note 25) - Disclosure of duration of liabilities not made. Two additional minor errors in tables.
- Housing Revenue Account – Item 8 adjustment (Note 8) - Discounts for early repayment of debt is shown as £11,722k. This should have been nil.
- Cash flow statement - Disposal cost adjustment of sales totalling £503k have been treated as a cash inflow rather than a cash outflow within 'proceeds from the disposal of PPE, investment property, assets held for sale and intangible assets'. There was a 'balancing figure' of £689k in the other non-cash movements figure of £3,190k.
- PFI Note 20 -We identified a number of non-trivial errors in the disclosure note for both the schools and waste management PFI schemes.
- Creditors Note 23 – A number of non-trivial items were misclassified in the creditors note.
- We identified a number of other minor errors, omissions, clarifications and typographical errors.

05 Value for money

We are required to conclude whether, for 2014/15, the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do this by considering the Council's arrangements against two criteria specified by the Audit Commission: financial resilience; and economy, efficiency and effectiveness.

We are also required to identify any significant risks in relation to Value for Money and then carry out specific work to address the risks.

In the Audit Strategy Memorandum we identified a significant risk relevant to the value for money conclusion

Significant Value for Money risks

Financial resilience
Description of the risk The Council is facing continuing financial pressures from reduced funding, increased demand and changing responsibilities. The Council is responding to the challenges by a programme of efficiencies, service reviews and developing new ways to manage demand and deliver services. The risk is that the measures taken by the Council are not effective, leading to a lack of financial resilience.
How we addressed this risk We reviewed: • monitoring and action plans for a sample of savings included in the budget; • the Medium-Term Financial Strategy; • budget monitoring reports and other finance updates; • the progress made in identifying savings required; • progress of the Council's Transformation Programme; and • financial planning supporting the development of the District Energy Scheme.

We detail below our findings in relation to the two criteria specified by the Audit Commission. Summary findings in relation to the VFM significant risk that we identified can be seen in Table 1 below.

Financial Resilience

The reported 2014/15 revenue outturn was an underspend against budget of £4.413m. This was reduced to an under spend of £3.441m after taking into consideration additional funding and movement on earmarked reserves.

The overall target for revenue savings in 2014/15 was £15.403m. The final outturn for achieved savings was £14.368m, a shortfall of £1.035m. Due to timing and phasing of implementation, the full planned savings weren't achieved in 2014/15 although this was more than outweighed by unplanned underspends in other areas, such as:

- Capital Financing – underspend of £1.310m
- Savings on the Insurance Fund – underspend of £1.045m
- Adult Social Care and Independent Living - underspend of £2.499m.

The Council currently has the following reserves and balances at 31 March 2015 (with 2013/14 comparatives shown alongside):

- Unearmarked General Fund balances of £15.6m (2013/14 £14.8m)
- Earmarked General Fund reserves of £35.3m (2013/14 £27.3m)
- Schools balances of £7.8m (2013/14 £8.1m)
- HRA reserves of £19.9m (2013/14 £18m)
- Total usable reserves of £92m (2013/14 £77.5m)

The Council has a good understanding of the financial challenges and risks it faces and is taking action to ensure its financial sustainability by identifying further efficiency savings and other means of reducing spending. The Council approved a balanced budget for 2015/16 and all required savings plans for the year are in place. The budget report sets out the factors and assumptions impacting on the budget, including service pressures.

The Council extended the time horizon of its Medium Term Financial Strategy (MTFS) from three to five years in July 2015. The MTFS is aligned to the priorities of the Council Plan 2015-2020 and officers plan to update it annually (more often if circumstances require it). The MTFS has an estimated funding gap of £77.7m for the period 2016/17 to 2020/21 which is significantly front-loaded with an estimated gap of £50.6m for the first two years. Work is well advanced on the measures to be taken to secure a balanced budget in both 2016/17 and 2017/18, drawing on the Council's extensive consultation with residents, businesses and partner organisations and shaped by the priorities in the Council Plan.

Economy, efficiency and effectiveness

In view of the severe funding reductions it faces, the Council has required each Service to assess how it would manage within a 60% funding envelope by 2017/18. Services are being aided in this through the use of a Commissioning Toolkit developed by the Corporate Procurement section.

The Council do have some areas of high expenditure when compared to others however these are known. For example, the Council are identified as a high expenditure on Culture and Sport however this is in line with the priorities of the Council Plan 2015-2020.

Progress continues to be made on challenging traditional methods of delivery, an example of which is the introduction in April 2014 of the joint waste management PFI in partnership with South Tyneside and Sunderland Council. This project, led by Gateshead Council, is designed to provide an affordable and effective solution for the treatment and disposal of residual municipal waste.

The Council is continuing to work with its local authority partners to develop the Combined Authority. This new way of working should help to deal with economic growth, skills and transportation within the North East.

We intend to issue an unqualified Value for Money conclusion as set out in Appendix B.

Table 1 – Significant Risk Summary Findings

<table>
<tr><th>Area</th><th>Auditor challenge and findings</th><th>Conclusion</th></tr>
<tr><td>Review of monitoring and action plans for a sample of savings included in the budget</td><td>We carried out a review of the savings required in the 2015/16 budget which included a detailed challenge of the progress of monitoring and action plans for a sample of savings

Findings
The 2015/16 Budget was approved by Council in February 2015. The budget was balanced without the use of any reserves therefore preserving reserve levels for use in subsequent years. However the Council is required to identify savings of £19.140 million during the year.

A summary of the required savings is outlined below split between each of the different Council themes:

<table>
<tr><th>Budget Saving Proposals Theme Summary</th><th>Budget Saving 2015/16 £'000</th></tr>
<tr><td>Environment</td><td>(896)</td></tr>
<tr><td>Local Economy</td><td>(1,608)</td></tr>
<tr><td>Communities Culture and Leisure</td><td>(2,085)</td></tr>
<tr><td>Adult Services</td><td>(3,006)</td></tr>
<tr><td>Public Health</td><td>(1,340)</td></tr>
<tr><td>Children and Young People</td><td>(1,412)</td></tr>
<tr><td>Efficiency and Effectiveness</td><td>(8,793)</td></tr>
<tr><td>TOTAL</td><td>19,140</td></tr>
</table>

We selected a sample of the 2015/16 savings and asked officers to provide detailed plans and proposals to support the headline figures and challenged whether these will be fully realisable. We were satisfied that there were plans in place to achieve the required savings.

At the end of August 2015, the Council reported that 2015/16 savings of £16.050m had already been secured with Strategy Group receiving frequent detailed reports on the remaining £3.090m of savings that need to be realised.</td><td>There are arrangements in place to achieve the required savings in 2015/16.</td></tr>
</table>

Review of the Medium-Term Financial Strategy	We reviewed the Council's Medium Term Financial Strategy and considered the robustness of budget estimates and significant assumptions made. **Findings** The Council introduced a five year Medium Term Financial Strategy (MTFS) which was approved by Cabinet in July 2015. The MTFS is aligned to the priorities of the Council Plan 2015-2020. In assessing the robustness of the budget, the Strategic Director, Corporate Resources has considered the following issues: • the general financial standing of the Council • the adequacy of the budget monitoring and financial reporting arrangements • the adequacy of the Council's internal control system • the future budget pressures faced by the Council, as identified in the Council's MTFS • the impact of reduced income and funding • the proposed Capital programme • the delivery of agreed budget savings Based on our review, we are satisfied that the revenue estimates are considered robust and that the level of reserves is considered adequate to cover the financial risks faced by the Council in the medium term. However, this assessment is based on the requirement that spending will be reduced to meet the funding gap in the MTFS as any shortfall will put the Council's financial sustainability at risk. We challenged the financial assumptions included in the MTFS such as: • employees' pay increases; • levels of investment income; • non achievement of required savings; • non achievement of workforce management issues; and • Welfare and Social Care demand issues. Taking account of the above, and the previous history of the Council, we are satisfied that the Council has considered the key assumptions and that the contingency of £5.3m included in the 2015/16 budget is adequate to mitigate the risk that some of the assumptions applied may differ from actual events during 2015/16 noting that there are also sufficient reserves in place should there be a shortfall. The revised MTFS 2015/16 to 2020/21 presented to Cabinet in July 2015 showed an estimated funding	The MTFS is aligned to priorities and the budget plans are based on robust estimates and assumptions.

	gap of around £77.7m for the period 2016/17 to 2020/21, significantly front loaded with an estimated gap of £50.6m for the first two years. The size of this shortfall represents a continuing and increasing challenge to the Council's effective financial planning and medium term financial sustainability. The Council has considered the assumptions relating to government funding (RSG) over this period and calculated its funding gap on this basis. Gateshead has taken a prudent view to tacking the funding gap by planning to achieve £35m of the gap in year 1 with the balance of £15m in year 2 although these plans are currently being strongly challenged internally and may be revised if they are not considered to be achievable in the timescales. We are satisfied that there are plans in place to achieve the savings required to balance the budget and recognise that these are now subject to rigorous challenge and may be revised over the next few months.	
Review of budget monitoring reports and other finance updates	We reviewed the budget monitoring reports and other finance updates throughout 2014-15 and considered the robustness of the budget monitoring arrangements. **Findings** The risk that expenditure will exceed budget is mitigated by the existence of a robust revenue monitoring framework. Some key features of this framework are: - Monthly monitoring information is presented to budget holders within 8 working days of the close of each accounting period. - All projected material variances are investigated and action plans are agreed with budget holders to address any areas of projected overspending. - Quarterly monitoring reports are presented to Cabinet, which show income, and expenditure variances for each of the Council's service areas including delivery of budget savings. - Savings are monitored and reported separately against target. In addition to the above, there are quarterly updates to Cabinet and there have been no unexpected significant under/overspends identified in 2014-15 or 2015-16. This is in line with the performance in previous years and the Council has a good record of managing its budget. The Council complies with the Prudential Code which is reported on a quarterly basis along with capital monitoring and complies with the Treasury Management Code. The Treasury Management Policy is updated on an annual basis and obtains advice on conditions and risks from market consultants. The Audit and Standards Committee receives the Corporate Risk Management report (which includes financial risks) quarterly. We have not identified any expected risks being omitted from these reports.	The Council has a robust budget monitoring arrangements in place. The Council also has arrangements in place to ensure that other financial updates are reported.

Progress made in identifying savings required	We reviewed the progress the Council has made in identifying the future savings required. **Findings** The Council took a 2-year approach to the budget so in addition to the £19.140m of 2015/16 savings proposals there were £8.7m of savings for 2016/17 initially identified. This has formed the basis of a corporate exercise where each Service is currently scenario planning against a 60% funding envelope to be achieved by 2017/18. They are being aided in this through the use of a Commissioning Toolkit developed by the Corporate Procurement section. If a Service cannot deliver an agreed saving they would need to propose and implement an alternative and deliver that in-year unless there were exceptional circumstances and this could be accommodated within the overall financial position. At the end of August 2015, the Council reported that 2015/16 savings of £16.050m had already been secured with Strategy Group receiving frequent detailed reports on the remaining £3.090m of savings that need to be realised.	The Council is making good progress in identifying the future savings required.
Progress of the Council's Transformation Programme	We have reviewed the progress on the Council's transformation programme. **Findings** The purpose of the Transformation Programme is to help groups and services identify opportunities for significant change in order to secure the best outcomes for Gateshead residents and to ensure the efficiency, sustainability and continued value for money of council services within the available budget. The programme is intended to look at • the services that the council provides • the way in which services are delivered • how the council operates and getting the best out of our employees through workforce development and engagement Project scopes have been prepared and Project Boards have been established for five areas: • Children's Services and Adult Social Care • Support Services • Leisure • Ways of Working • Trading	The Council continues to make progress on the Transformation Programme

	Other projects and areas of activity may be incorporated into the programme going forward. Within the project plans, there are a range of options being considered including looking at alternative service delivery models, partnership working and improving workforce strategies. This is at an early stage but there is clear evidence that the Council is challenging the way that services are delivered and whether they are receiving value for money.	
Review of financial planning supporting the development of the District Energy Scheme	We reviewed the progress made by the Council in relation to the financial planning supporting the development of the District Energy Scheme **Findings** This project seeks to provide low-cost, low-carbon energy to Gateshead town centre, including the Civic Centre, the Sage Gateshead, BALTIC, Gateshead College, and a number of other public buildings and Council-owned tower blocks. The scheme involves: • the purchase of wholesale gas from the grid; • conversion of gas to electricity using a combined heat and power (CHP) facility; • selling the power generated to customers and back to the grid; • the generation of hot water from the energy released as a by-product of the process; and • the distribution of the hot water to customers through a pipe network across the town centre which will be used to fuel their central heating systems. Since the agreement of the above, the following progress has been made on the district energy scheme: • contracts have been signed with Balfour Beatty, Edina and Clancy Docwra; • Balfour Beatty has taken possession of the Energy Centre site and compound, and commenced detailed site investigation works; • construction started on 1st June 2015; • the Council extended the scope deadline to allow their consultants to provide greater programme management input during the construction phase; and • the Council has reached in principle agreement with Northern Power Grid, to purchase 4 existing electrical substations subject to approval by Ofgem. The Council has a financial business case is place which is continually revised and updated to allow for ongoing amendments as the Scheme progresses.	The Council continues to make progress on the financial planning of the District Energy Scheme.

Appendix A – Draft management representation letter

To be provided to us on headed note paper

September 2015

Dear Sir

Gateshead Council - audit for year ended 31 March 2015

This representation letter is provided in connection with your audit of the statement of accounts for Gateshead Council for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the organisation you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Strategic Director, Corporate Services that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all relevant meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on Gateshead Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by Gateshead Council in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against Gateshead Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

We have complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Strategic Director, Corporate Services for the design, implementation and maintenance of internal control to prevent and detect fraud and error. I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting Gateshead Council involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting Gateshead Council's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. I have disclosed to you the identity of Gateshead Council’s related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure have been adjusted or disclosed. Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Yours faithfully

Strategic Director, Corporate Services

Appendix B – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GATESHEAD COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Gateshead Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Gateshead Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Strategic Director, Corporate Resources and auditor

As explained more fully in the Statement of the Strategic Director, Corporate Resources' Responsibilities, the Strategic Director, Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Gateshead Council as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;

- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources
We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

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

Conclusion
On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that, in all significant respects, Gateshead Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

Gareth Davies
Partner
For and on behalf of Mazars LLP, Appointed Auditors
The Rivergreen Centre
Aykley Heads
Durham, DH1 5TS

xx September 2015

Appendix C – Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

Gateshead Council
www.gateshead.gov.uk

Mazars LLP
Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

Date: 25 September 2015

Dear Sir

Gateshead Council - audit for year ended 31 March 2015

This representation letter is provided in connection with your audit of the statement of accounts for Gateshead Council for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Strategic Director, Corporate Services that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

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Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and

- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

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All material matters, including unasserted claims, that may result in litigation against Gateshead Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

We have complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Strategic Director, Corporate Services for the design, implementation and maintenance of internal control to prevent and detect fraud and error. I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting Gateshead Council involving:
    1. management and those charged with governance;
    2. employees who have significant roles in internal control; and
    3. others where fraud could have a material effect on the financial statements

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I have disclosed to you the identity of Gateshead Council's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Yours faithfully

Darren Collins
Strategic Director, Corporate Services

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APPENDIX 4

Statement of Accounts

2014/15

Gateshead Council

AUDITED

Gateshead Council

Contents Page

Part 1

Explanatory Foreword

The Statement of Accounts[1] is set out on pages 15 to 74. The Statement covers the financial year from 1 April 2014 to 31 March 2015, with comparative figures included for previous periods where appropriate.

Introduction

The purpose of the foreword is to offer interested parties an understandable guide to the most significant matters reported in the accounts. It provides an explanation of the Council's financial position and assists in the interpretation of the accounting statements. It also contains a commentary on the major influences on the Council's income, expenditure and cashflow, and information on its financial needs and resources.

The Statement of Accounts which follows presents the Council's financial performance for 2014/15, its overall financial position at the end of that period and the cost of services it provides. The Statement has been prepared in accordance with the IFRS[2] based Code of Practice on Local Authority Accounting in the United Kingdom (the Code), developed by the CIPFA[3]/LASAAC[4] Board and approved by FRAB[5]. The Code constitutes proper accounting practice[6].

When read in conjunction with the Council's Annual Report[7], the publications provide an insight into the many activities and achievements of the Council during the year.

The Statement of Accounts

The accounts consist of the following statements that are required to be prepared under the Code:

Statement of Responsibilities (Page 14) explains both the Council's and the Strategic Director, Corporate Resources' responsibilities in respect of the Statement of Accounts.

Core Financial Statements (pages 15 to 68):

Movement in Reserves Statement (Page 15) shows the movement in the year across the different reserves held by the Council, analysed into 'usable' reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other, 'unusable' reserves.

Comprehensive Income and Expenditure Statement (Page 17) shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise council tax to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

The Comprehensive Income and Expenditure Statement is presented using the service expenditure analysis set out in CIPFA's Service Reporting Code of Practice (SeRCOP).

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[1] Note that this is the single entity Statement of Accounts; the Council does not prepare Group Accounts at present
[2] International Financial Reporting Standards
[3] The Chartered Institute of Public Finance and Accountancy
[4] CIPFA's Local Authority (Scotland) Accounts Advisory Committee
[5] Financial Reporting Advisory Board, an independent board within HM Treasury
[6] Under the terms of the Accounts and Audit (England) Regulations 2011 & the Local Government and Housing Act 1989
[7] See www.gateshead.gov.uk/Council%20and%20Democracy/PerformanceThemes/OurPerformanceReports.aspx

Balance Sheet (Page 18) shows the Council's financial position and net assets at the start and end of the financial year. It summarises the long-term and current assets that are used in carrying out the Council's activities, together with its liabilities.

Cash Flow Statement (Page 19) summarises the cash and cash equivalent receipts and payments of the Council arising from transactions with third parties.

Notes to the Core Financial Statements (Page 21) provide additional information for significant items to support the core statements above.

Supplementary Financial Statements (pages 69 to 74):

Housing Revenue Account (HRA)

- **HRA Income and Expenditure Statement (Page 69)** covers the provision and maintenance of the Council's housing stock. There is a statutory requirement[8] to produce this account, which separates housing from all other Council services.
- **Statement of Movement on the HRA Balance (Page 70)** shows how the HRA Income and Expenditure Statement surplus or deficit for the year reconciles to the movement in the HRA balance for the year.
- **Notes to the Housing Revenue Account (Page 70)** provide additional information to support the HRA statements.

Collection Fund

- **The Collection Fund Statement (Page 73)** - the Council is required[9] to maintain a Collection Fund, which shows the transactions of the Council in relation to national non-domestic rates and council tax and illustrates the way in which these have been distributed to preceptors and the General Fund.
- **Notes to the Collection Fund Statement (Page 74)** provide additional information to support the Collection Fund Statement.

Documents Supporting the Statement of Accounts

Annual Governance Statement (Page 75), required by regulations[10] to accompany the Statement of Accounts, outlines the Council's approach to corporate governance and internal control.

Independent Auditor's Report (Page 82) details the basis of the external auditor's opinion on the Statement of Accounts.

Glossary of Terms (Page 85) includes a description of the key terms used in the Statement of Accounts, along with explanations of any technical terms.

Summary of the Financial Year

The Council classifies its expenditure and income as:

Revenue: relates to the purchase of goods and services that are consumed within one year, financed from council tax, grants, business rates and other income such as fees and charges

or

Capital: relates to assets which have a useful life in excess of one year, financed by capital receipts, borrowing, grants or other contributions

[8] See http://www.legislation.gov.uk/ukpga/1989/42/part/VI
[9] In accordance with section 89 of the Local Government Finance Act 1988 (as amended in 1992)
[10] Paragraph 4(4)(a) of Accounts and Audit (England) Regulations 2011

The following sections discuss the Council's revenue and capital income and expenditure during 2014/15.

Revenue Income and Expenditure Summary

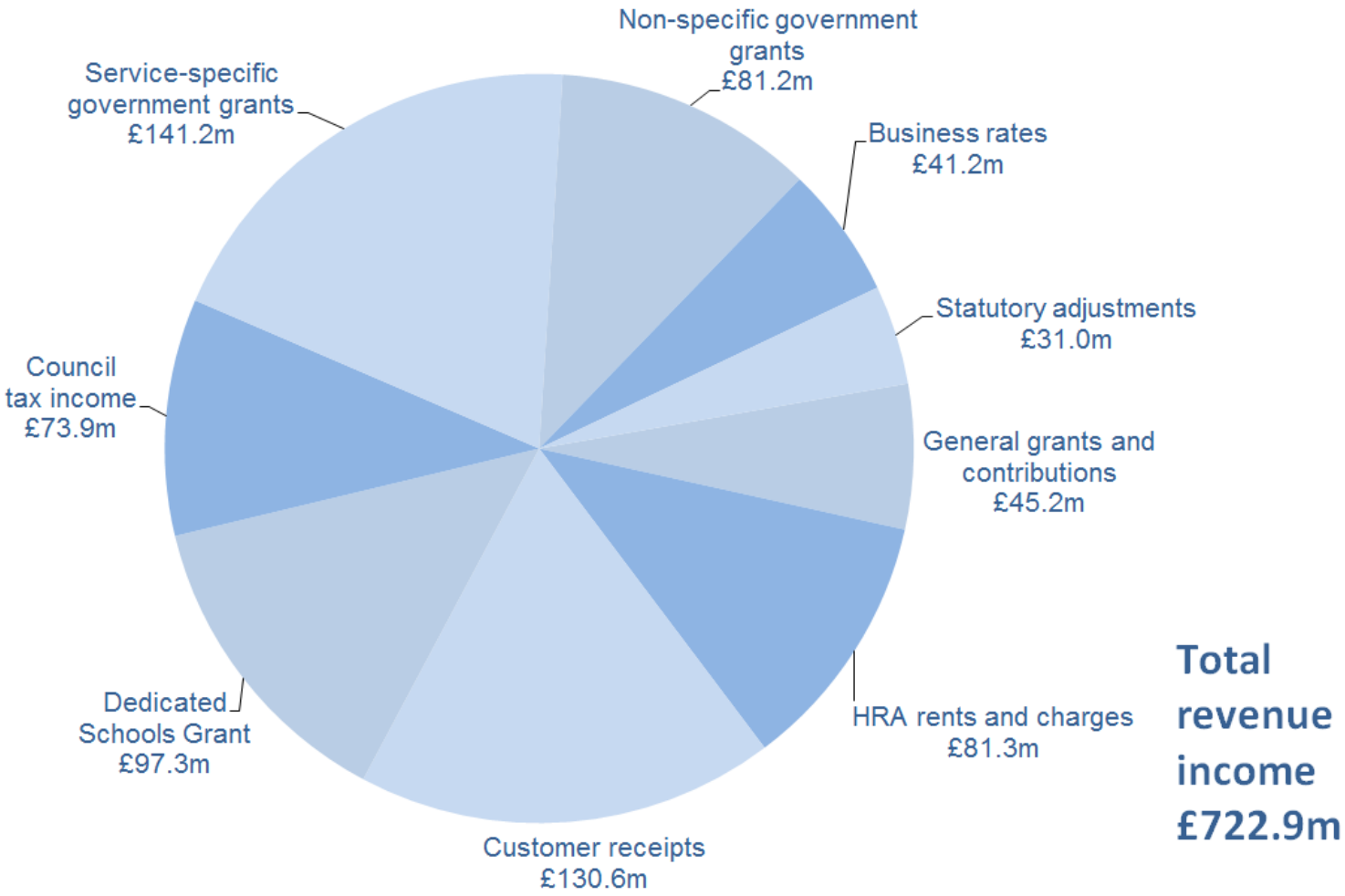
This section offers a summary of the income and expenditure presented within the Movement in Reserves Statement (page 15), the Comprehensive Income and Expenditure Statement (page 17) and the Housing Revenue Account (HRA) statement (page 69). The information reconciles to the net movement in the General Fund and HRA reserves, presented here in a consolidated form for illustrative purposes.

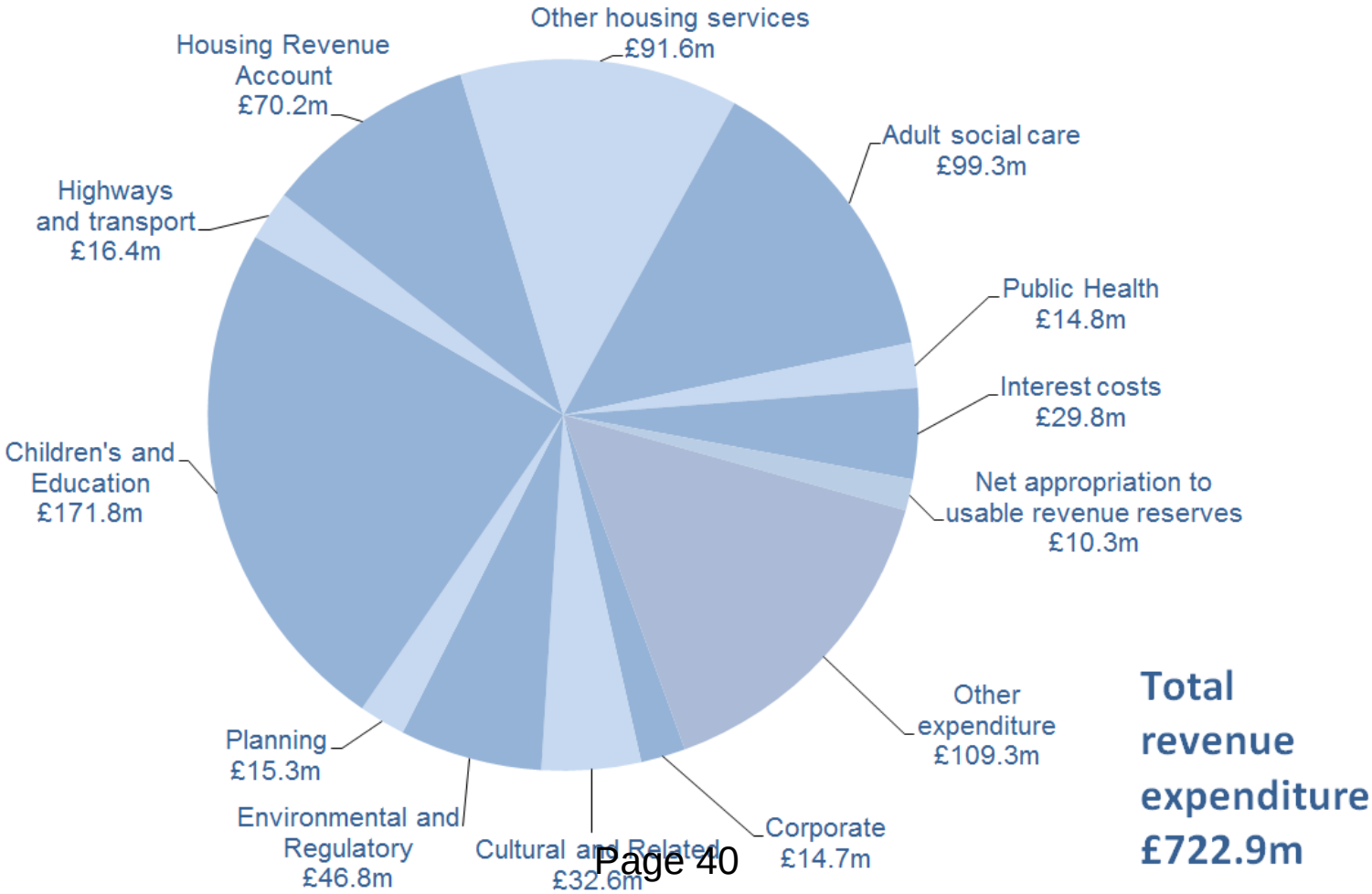
The following table presents a summary of the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement, and provides information on movements on the Council's key reserves in 2014/15:

	General Reserve £000s	LMS £000s	**General Fund £000s**	**HRA £000s**	**Totals £000s**
Cost of Services	185,394	(317)	**185,077**	**(10,672)**	**174,405**
Other Operating Expenditure	26,547	0	**26,547**	**(948)**	**25,599**
Financing & Investment Income / expenditure	26,555	0	**26,555**	**17,090**	**43,645**
Taxation & non-specific grant income	(215,608)	0	**(215,608)**	**0**	**(215,608)**
(Surplus) or deficit on provision of services	22,888	(317)	**22,571**	**5,470**	**28,041**
Accounting adjustments	(31,597)	587	**(31,010)**	**(7,347)**	**(38,357)**
Reserves transfers	8,023	0	**8,023**	**0**	**8,023**
Net increase/decrease in reserves	(686)	270	**(416)**	**(1,877)**	**(2,293)**
Opening reserves	(14,884)	(8,086)	**(22,970)**	**(18,008)**	**(40,978)**
Net increase/decrease in reserve	(686)	270	**(416)**	**(1,877)**	**(2,293)**
Closing reserves	(15,570)	(7,816)	**(23,386)**	**(19,885)**	**(43,271)**

Total General Fund and HRA expenditure in 2014/15 was £720.580m, against total income of £722.873m. This £2.293m surplus represented an increase in the General Fund and HRA reserves, as shown below. This surplus position includes an £8.023m transfer to earmarked reserves, meaning that total usable revenue reserves increased by £10.316m during 2014/15.

The following charts show the services on which money was spent and how it was funded (General Fund and HRA; excludes the movement in earmarked reserves):


Non-specific government grants £81.2m
Business rates £41.2m
Statutory adjustments £31.0m
General grants and contributions £45.2m
HRA rents and charges £81.3m
Customer receipts £130.6m
Dedicated Schools Grant £97.3m
Council tax income £73.9m
Service-specific government grants £141.2m
Total revenue income £722.9m


Other housing services £91.6m
Adult social care £99.3m
Public Health £14.8m
Interest costs £29.8m
Net appropriation to usable revenue reserves £10.3m
Other expenditure £109.3m
Corporate £14.7m
Cultural and Related £32.6m
Environmental and Regulatory £46.8m
Planning £15.3m
Children's and Education £171.8m
Highways and transport £16.4m
Housing Revenue Account £70.2m
Total revenue expenditure £722.9m

Position against Budget

The Council's Budget is prepared on a different basis to the Statement of Accounts (which must comply with international accounting rules). The following section presents the Revenue Outturn position against Budget[11] as reported internally to Council and Cabinet. The main measure of the Council's financial performance is the movement in the General Reserve. The following shows the Council's spend against Budget for 2014/15[12]:

	Revised Budget £000s	Outturn £000s	Budget variance £000s
Expenditure			
Care, Wellbeing and Learning	**105,534**	**103,358**	(2,176)
Communities and Environment	**36,850**	**37,392**	542
Policy, Economic Growth and Transformation	**4,285**	**4,268**	(17)
Corporate Services and Governance	**3,953**	**4,158**	205
Corporate Resources	**7,063**	**7,023**	(40)
Public Health	**15,832**	**14,758**	(1,074)
Net Service expenditure	**173,517**	**170,957**	(2,560)
Other Services and contingencies	**5,628**	**5,202**	(426)
Capital financing costs	**28,690**	**27,380**	(1,310)
Investment income	**(1,302)**	**(1,419)**	(117)
Sub-total before levies	**206,533**	**202,120**	(4,413)
Total levies	12,475	12,475	
Net spend before financing	**219,008**	**214,595**	(4,413)
Construction trading account	**0**	**(1,285)**	(1,285)
Financing			
Settlement Funding Assessment	**(117,067)**	**(117,067)**	0
Other grants	**(12,856)**	**(12,899)**	(43)
Public Health grant	**(15,832)**	**(15,832)**	(0)
Council tax	**(71,253)**	**(71,253)**	(0)
Collection Fund	**(2,000)**	**(2,000)**	0
Earmarked reserves	**0**	**1,015**	1,015
	(219,008)	**(218,036)**	972
Net Spend	**(0)**	**(4,726)**	(4,726)
General Reserve balance brought forward	**(14,884)**		
In-year movement	(4,726)		
Appropriations to earmarked reserves	4,040		
General Reserve balance carried forward	**(15,570)**		

[11] Note 8 *Segmental Analysis* (page 29) provides a reconciliation between the revenue outturn position reported internally (£213.310m) and the cost of services in the CIES (£174.405m).

[12] Note that this excludes schools and HRA

The key outcomes for the year are as follows:

- The Council approved a Budget of £219.008m for 2014/15; the actual net expenditure position within the Revenue Outturn Report was £214.595m, an underspend of £4.413m on services (primarily relating to savings on capital financing and the Insurance Fund and additional Continuing Health Care income in Adult Social Care and Independent Living). This is reduced to an underspend of £3.441m after taking into consideration additional funding and movements on earmarked reserves. The Construction trading account delivered a surplus of £1.285m, and including the surplus on trading with the budget underspend results in an outturn position that is £4.726m less than the original budget.
- As part of the 2014/15 outturn position, a review of reserves was undertaken. As a result of this review, the General Reserve increased by £0.686m to £15.570m.
- The outturn position includes a provision for housing benefit overpayments bad debt totalling £2.704m and a provision for workforce management totalling £4.223m.
- The 2014/15 Budget includes savings of £15.403m. The final outturn for achieved savings was £14.368m, a shortfall of £1.035m, although it should be noted that this was expected and reflected in contingencies given the timing and implementation of savings.

Further details can be found in the Council's Revenue Outturn report to Cabinet (23 June 2015).

In addition to the General Reserve above, the General Fund movement also included a £0.270m movement in the LMS Reserve (schools). Schools had total revenue income of £96.650m, which includes delegated funding from the Dedicated Schools Grant, other government grants, income from school meals, lettings and donations. Schools expenditure totalled £96.920m which resulted in the reduction of overall school balances from £8.086m to £7.816m.

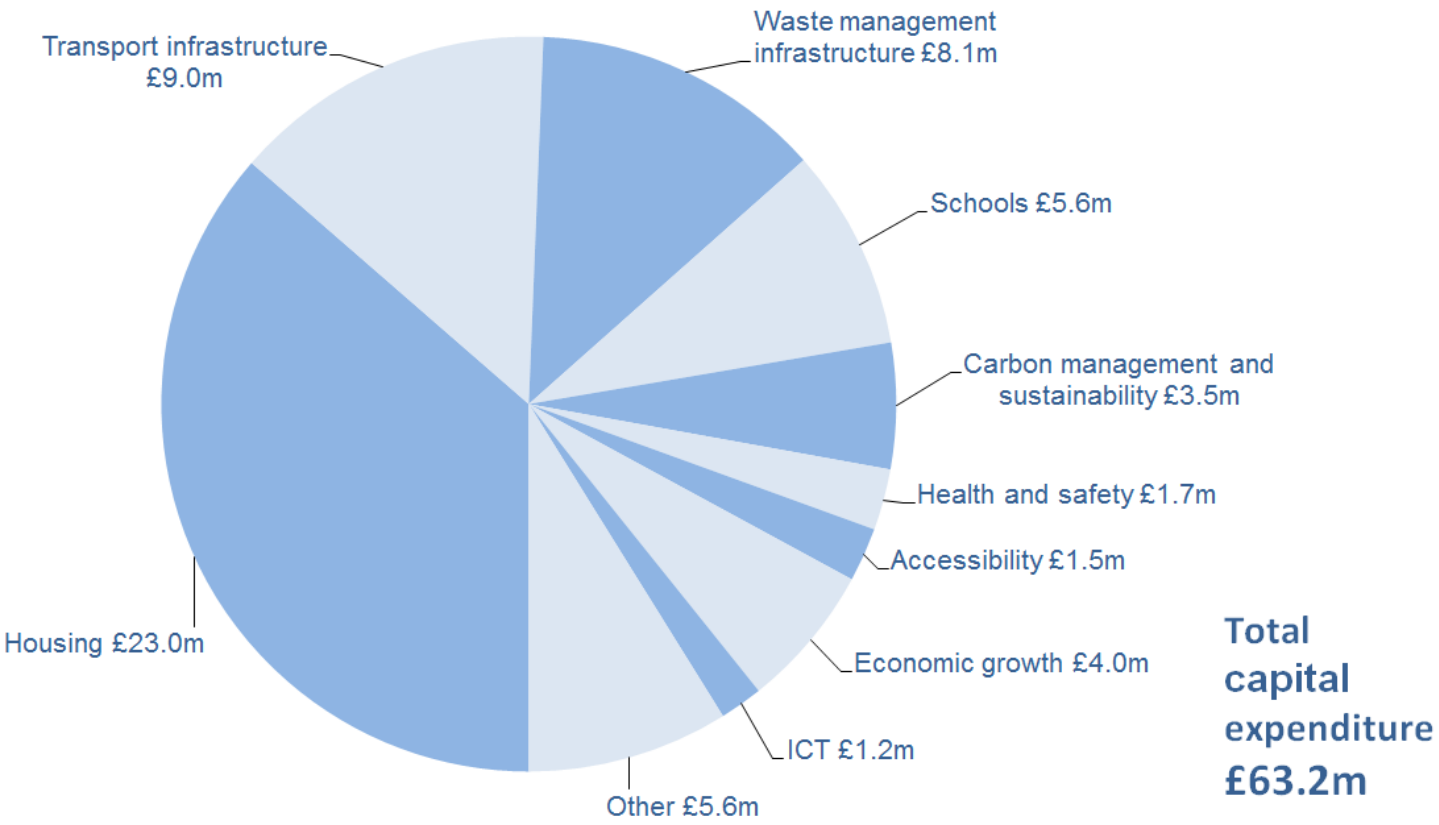
Housing Revenue Account (HRA): overall expenditure for 2014/15 amounted to £87.785m with income of £89.662m, resulting in an increase to the reserve of £1.877m. The underspend achieved was mainly in relation to slippage in the Capital Programme and contingencies not being required.

Capital Income and Expenditure Summary

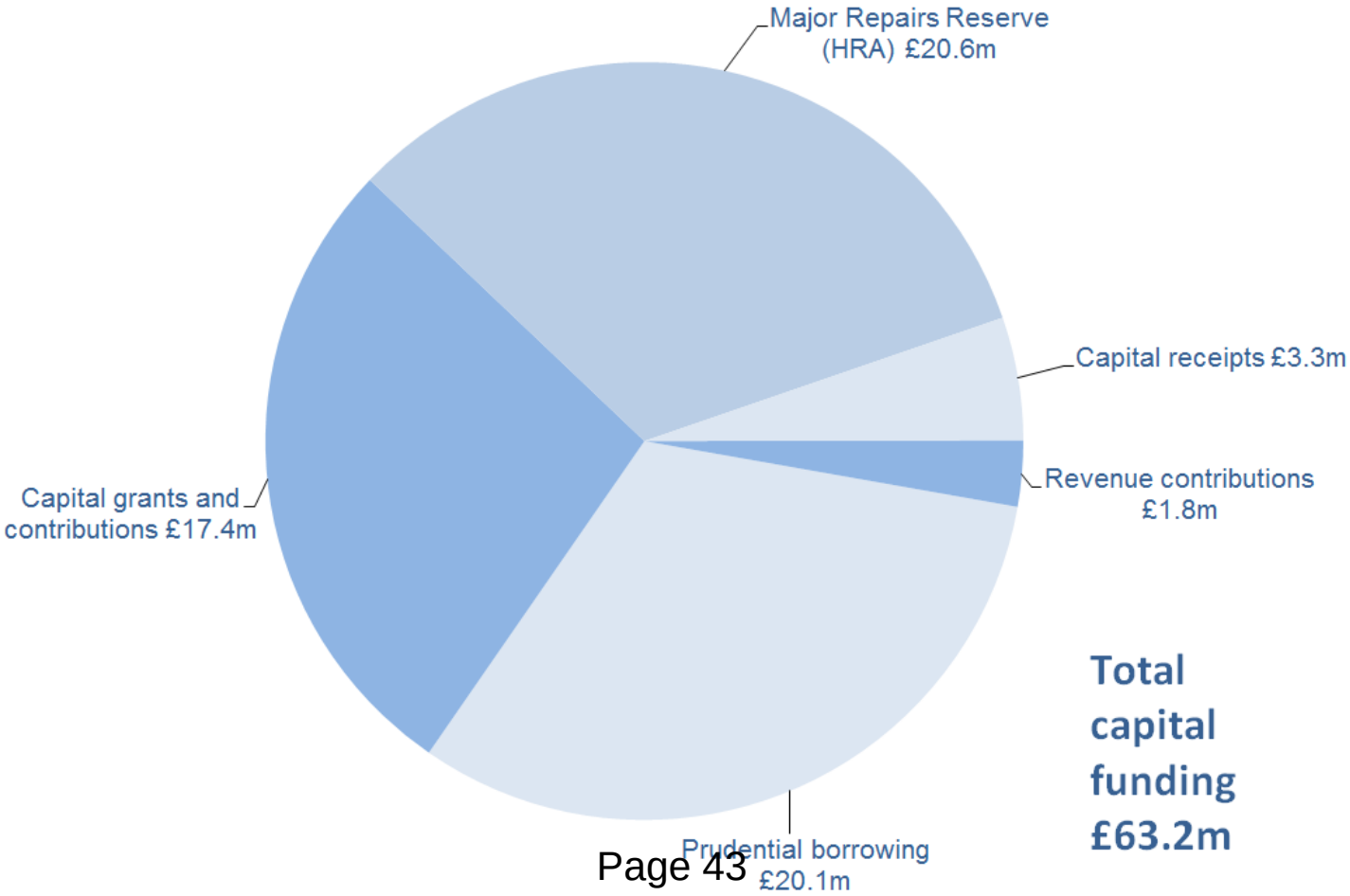
In 2014/15, the Council spent £63.2m on capital schemes (2013/14: £60.2m), with capital investment focused on the delivery of Vision 2030. A number of high priority schemes were supported during the year, with particular emphasis on housing, economic growth, energy efficiency and sustainability projects.

Actual capital expenditure for the year on the Council's non-current assets totalled £55.8m (2013/14: £55.4m). This expenditure was invested in the purchase and improvement of the Council's assets such as housing, schools, roads and waste management infrastructure.

In addition, the Council spent a further £7.4m (2013/14: £4.8m) on schemes where no asset of the Council was created. This included the award of capital loans to facilitate the development of affordable housing within Gateshead, the award of disabled facilities grants to individuals, investment to bring empty private properties back into use, and works to voluntary aided schools, academies and trust-owned properties. The following chart indicates the breakdown of capital expenditure across the Council, analysed into the Council's corporate priorities:



The use of available external capital resources and capital receipts has been maximised, ensuring that the Council does not lose any of the external funding that has been awarded. Where possible, reductions have been made to schemes that are not considered to be essential in helping to reduce the pressure on revenue resources. The following chart indicates how the Council funded its capital investment:



Further information about the specific capital projects supported by the Council during 2014/15 can be found in the Capital Outturn Report to Cabinet of 23 June 2015.

Other Key Items in 2014/15

Material Assets and Liabilities: changes in 2014/15

As at 31 March 2015, the Council held £1,337.064m of long-term assets, £151.875m of current assets, £151.657m of current liabilities and £1,140.368m of long-term liabilities.

Current assets have increased by £38.238m, which includes the following significant items:

- An increase of £17.014m in short-term investments;
- A £5.745m increase in short-term debtors, some of which is due to fluctuations in council tax and business rates arrears and changes in bad debt provision levels;
- Changes in the numbers of assets held for sale and inventory levels; and
- An £18.670m increase in cash and cash equivalents (asset element) due to fluctuations in cash balances.

The Council's current liabilities have decreased by £4.347m, which includes the following:

- Cash and cash equivalents (overdrafts) have fallen by £9.002m;
- Short-term borrowing has decreased by £8.834m, reflecting the maturity profile of borrowing and use of prudential borrowing for the capital programme; and
- An increase of £10.925m in short-term creditors due to fluctuations in the amounts owed by public bodies such as the NHS, and increases in grant receipts in advance.

Long-term assets have risen by £49.176m, primarily due to increases in the value of the Council's asset portfolio. The most significant increase was due to the waste PFI scheme becoming operational during 2014/15.

Long-term liabilities have increased by £147.009m, mainly reflecting a £61.160m increase in pension liabilities (£86.960m decrease in 2013/14), and a rise in long-term borrowing of £40.634m, reflecting the maturity profile of borrowing.

Workforce Management and Exit Packages

The 2014/15 Statement of Accounts recognises a cost of £7.338m in relation to actual redundancies in 2014/15 and expected redundancies in 2015/16. This includes an estimated 175 compulsory redundancies (246 in 2013/14) and 129 voluntary redundancies and other terminations (157 in 2013/14). This cost includes redundancy payments to employees and strain on the fund costs payable to the appropriate pension fund.

The total cost of redundancy in 2014/15 totalled £3.115m (excluding schools staff). In addition, as part of the 2014/15 revenue outturn, a provision of £4.223m was created for redundancies in 2015/16.

Pension Liability

The Council is required to account for retirement benefits (i.e. pension costs) when it commits to them, even if the actual payment of those benefits will be many years in the future; the Balance Sheet net worth is in effect reporting future years' deficits.

Inclusion of pension fund assets and liabilities in the accounts represents the requirement to increase contributions to make up any shortfall in the Pension Fund, and its ability to benefit through reduced contributions due to any surpluses in the Fund.

The current shortfall in the Council's share of the relevant pension funds has been assessed by independent actuaries as £519.760m (from £458.600m in 2013/14). The deficit on the

Fund increased by £61.160m for a variety of reasons (such as investment performance, changes in key demographics); the Council is making the necessary pension deficiency payments over a 22-year period to address the estimated shortfall. Note 25 to the core financial statements provides further details of the Council's pension disclosures.

Council's Borrowing Position

The *Budget and Council Tax Level Report,* approved by Council on 27 February 2014, details the 2014/15 borrowing limits for the Council.

The specific borrowing limits set relate to two of the prudential indicators that are required under the Prudential Code[13]. The Council is required to set borrowing limits for the following three financial years. The limits for 2014/15 were as follows:

- Authorised limit for external debt of £740m
- Operational boundary for external debt of £715m

As part of the Council's Treasury Management operation, these indicators are monitored on a daily basis, and neither was exceeded during 2014/15. The highest level of external debt incurred by the Council during the year was £605.685m.

South Tyne and Wear Waste Management Partnership

The South Tyne and Wear Waste Management Partnership, led by Gateshead Council was established to procure a service for the treatment and disposal of residual municipal waste. In April 2011, the Partnership, led by Gateshead Council, signed a £727m PFI contract with a consortium led by SITA UK. The Council is expected to utilise approximately 20% of the total capacity of the facility each year, resulting in estimated unitary charge payments of £236m over the duration of the contract including indexation.

The contract is focused on the development of an "energy from waste" facility in Teesside which will treat approximately 190,000 tonnes of residual waste generated by the three councils involved (Gateshead, Sunderland and South Tyneside) each year until the expiry date in March 2039.

Service commencement was achieved on 22 April 2014 following independent certification of the energy from waste facility, meaning that the unitary charge associated with using the asset became payable during the 2014/15 financial year.

Significant Issues for 2015/16 and Beyond

Funding and Budgets

Government Funding

The Government's 2015 Budget identified that resources to the local government budget were to be reduced from £16.6bn in 2013/14 to £13.8bn in 2014/15 and £12.1bn in 2015/16. The 2015 Conservative Party manifesto identifies the requirement for a further fiscal consolidation of £30bn over the next two years, of which £13bn will come from departmental savings including local government. Based on these high level figures and reductions to date, estimates have been prepared over the five year period to 2020/21; however these will need revisiting once further details are announced over the summer and into the autumn of 2015.

In addition to these further funding reductions, the Council has also faced very significant cost pressures (such as increases in demand for social care and inflationary pressures including increases in energy costs). These pressures have meant that the Council has had

[13] See http://www.cipfa.org/Policy-and-Guidance/Publications/T/The-Prudential-Code-for-Capital-Finance-in-Local-Authorities-2011-Edition-Book

to make budget savings of over £110m since 2010, and is predicting that further significant savings will be required over the medium term.

The Medium Term Financial Strategy (MTFS) sets out the Council's approach to achieving a sustainable budget over the medium term whilst ensuring that all revenue resources are directed towards corporate priorities and the delivery of Vision 2030. The MTFS describes the financial direction of the Council over the planning period and outlines the financial pressures it will face.

Medium term financial planning remains difficult and the plan has been prepared against the expectation of continuing funding cuts for local government coupled with increased demand for social care and the impact of welfare reform. Further details can be found in the MTFS, which will be presented to Cabinet on 14 July 2015.

Collection Fund

The 2015/16 base Budget includes a contribution from the Collection Fund of £1.0m. The current gap assumes no further contributions as the position on the Collection Fund will be impacted by the level of collection rates of both council tax and business rates which could be adversely affected by the economic downturn and the impact of welfare reform including the localisation of council tax support.

Revenue Budget 2015/16

The Council approved a revenue base Budget of £215.270m (excluding schools) for 2015/16 on 26 February 2015; a decrease of £3.738m on the 2014/15 base Budget. The Budget, which includes £19.140m savings, is summarised below:

	£m
Net Budget 2014/15	219.008
Inflation and service pressures	15.402
Provisional net Budget	**234.410**
Budget savings required in 2015/16	(19.140)
Base Budget 2015/16	**215.270**

Capital Programme 2015/16

In February 2015, the Council approved a capital programme of £82.3m for 2015/16 which included £24.1m of HRA capital investment. The level of investment over the next three years (2015/16 to 2017/18) is expected to amount to £194.7m which represents a significant level of strategic investment in the Council's assets to deliver Vision 2030. Economic and housing growth remains a key priority for the Council's capital investment, with planned investment of almost £40m over the next three years in these projects. Further details can be found within the Capital Programme Report.

Workforce Management Costs

The 2015/16 base budget includes a contingency of £1.1m for workforce management costs and, coupled with the provision of £4.22m, these resources reflect the anticipated redundancy costs as a result of the estimated funding gap. Further resource may be required from reserves.

Welfare Reform

The Government's welfare reform agenda, including Universal Credit, is likely to have an impact in relation to potential bad debt of council tax income and housing rents. In addition there could be wider financial implications for service delivery due to increased demand.

Pensions

The Local Government Pension Scheme (LGPS) was subject to triennial review in 2012/13. Stepped deficiency payments for 2016-2021 have been included in the Council's MTFS. The

next valuation impacts on 2017/18 and, given performance on the fund in recent years, it is likely to result in additional cost pressures.

As part of the Budget on 20 March 2014, the Chancellor announced that changes to the single-tier state pension will be brought forward one year to 2016/17. The changes will mean increased National Insurance (NI) contributions for contracted out employees and higher NI contributions for employers and has been estimated to cost local government employers £1bn nationally. Based on the current number of contracted out employees, the cost for the Council is estimated to be £2.5m. The Chancellor has stated that this cost increase to public sector employers would be taken account of in the Spending Review however at this stage this is included as a cost pressure within the MTFS.

Wider Issues

Economic Growth

The Council will continue to place an increasing focus on economic growth. A New Development Deal was agreed with Gateshead and Newcastle in 2012 which included, amongst other things, the creation of an Accelerated Development Zone (ADZ). This ADZ, which includes the Gateshead Quays and Baltic Business Quarter, allows the Council to retain 100% of business rates growth (rather than the 49% retainable in the rest of the Borough), providing a strong incentive for regeneration. On 2 June 2015 Cabinet approved the appointment of a development partner for Gateshead Quays which will assist with regeneration plans and business rates growth.

Better Care Fund

The June 2013 Spending Round included an announcement that £3.8bn worth of funding would be made available to ensure closer integration between health and adult social care. The funding was described as “a single pooled budget for health and social care services to work more closely together in local areas, based on a plan agreed between the NHS and local authorities”. Initially, the fund was known as the health and social care Integration Transformation Fund (ITF) until final government guidance rebranded it as the Better Care Fund (BCF).

The BCF allocation identified by government for Gateshead is £6.730m for 2015/16 (including £1.536m capital funding). However, this is not new money to the Gateshead health and care economy, but rather represents a requirement to re-focus existing resources towards more integrated out-of-hospital care and to reduce acute hospital admissions and readmissions. This has particular implications for Gateshead Clinical Commissioning Group and local Foundation Trusts as commissioner and providers of acute care respectively. It also has implications for social care as more care is provided in community settings and demand pressures on existing services increase. The Gateshead BCF plan was reported to Cabinet on 29 April 2014.

Energy Schemes

Construction has commenced on the Council’s town centre district energy scheme, which will support regeneration of the town centre, reduce carbon emissions and lower energy costs for homes and buildings in the area. The first phase, to be operational by spring 2016, will see £18m invested in the scheme, with further extensions to be added over the coming years. The scheme will be managed through an energy services company, which will also be used as a vehicle for planned and future energy projects.

In addition, the Council is also undertaking a programme of Solar PV installation. Phase 1 consists of 15 sites including Gateshead College, Birtley Leisure Centre, Gateshead Stadium, the Civic Centre and five schools. A further three phases of the Solar PV scheme are planned; these include primary schools, commercial properties and Council housing

stock. The schemes have no net cost to the Council, and have the added benefit of providing green, low carbon energy to the Borough.

Summary

The Council, along with other local authorities, has faced unprecedented reductions in government funding since the Comprehensive Spending Review (CSR) 2010 alongside increasing demand for its services, particularly from those most vulnerable. This has meant the Council has had to make significant budget savings since 2010 amounting to £110m.

The Council's MTFS covers the five year period 2016/17 to 2020/21. Future pressures have been considered and the Council will continue its two-year approach to budget planning that is driven by the strategic outcomes contained within the Council Plan.

Further Information

This publication provides a review of the financial performance of the Council for 2014/15. Given the complexity of these accounts, a summary accounts document will be produced and published on the Council's website. This information will also be included in the Council's Annual Report. Comments are invited on the usefulness and readability of this summary document.

Darren Collins
Strategic Director, Corporate Resources

Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Gateshead Council, that officer is the Strategic Director, Corporate Resources;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

The Strategic Director, Corporate Resources' Responsibilities

The Strategic Director, Corporate Resources is responsible for the preparation of the Council'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).

In preparing this Statement of Accounts, the Strategic Director, Corporate Resources has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the local authority Code of Practice.

The Strategic Director, Corporate Resources has also:

- kept proper accounting records which are up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Chief Finance Officer's Certificate

I hereby certify that the Statement of Accounts for the year ended 31 March 2015, required by the Accounts and Audit (England) Regulations 2011 are set out in the following pages.

I further certify that the Statement of Accounts give a true and fair view of the financial position of the Council at 31 March 2015 and of its income and expenditure for the year ended 31 March 2015.

Signed:  Date: 17 September 2015

Darren Collins
Strategic Director, Corporate Resources

Part 2: Core Financial Statements

Movement in Reserves Statement

	Note	General Fund Balance	Earmarked GF Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Useable Reserves	Unusable Reserves	Total Authority Reserves
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance as at 31 March 2014	**6b**	**(22,970)**	**(27,319)**	**(18,008)**	**0**	**(4,964)**	**(4,326)**	**(77,587)**	**(174,575)**	**(252,162)**
(Surplus) or deficit on provision of services		22,571	0	5,470	0	0	0	28,041	0	28,041
Other comprehensive (income) and expenditure		0	0	0	0	0	0	0	27,207	27,207
Total comprehensive (income) and expenditure		**22,571**	**0**	**5,470**	**0**	**0**	**0**	**28,041**	**27,207**	**55,248**
Adjustments between accounting basis & funding basis under regulations	6a	(31,010)	0	(7,347)	0	(2,535)	(1,917)	(42,809)	42,809	0
Net (increase) / decrease before transfers to earmarked reserves		**(8,439)**	**0**	**(1,877)**	**0**	**(2,535)**	**(1,917)**	**(14,768)**	**70,016**	**55,248**
Transfers (to) / from earmarked reserves	6b	8,023	(8,023)	0	0	0	0	0	0	0
(Increase) or decrease in year		**(416)**	**(8,023)**	**(1,877)**	**0**	**(2,535)**	**(1,917)**	**(14,768)**	**70,016**	**55,248**
Balance as at 31 March 2015	**6b**	**(23,386)**	**(35,342)**	**(19,885)**	**0**	**(7,499)**	**(6,243)**	**(92,355)**	**(104,559)**	**(196,914)**

2013/14 movements:

	Note	General Fund Balance	Earmarked GF Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Useable Reserves	Unusable Reserves	Total Authority Reserves
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance as at 31 March 2013	**6b**	**(23,811)**	**(19,072)**	**(18,053)**	**(3,952)**	**(2,845)**	**(5,613)**	**(73,346)**	**(149,904)**	**(223,250)**
(Surplus) or deficit on provision of services		57,773	0	35,021	0	0	0	92,794	0	92,794
Other comprehensive (income) and expenditure		0	0	0	0	0	0	0	(121,706)	(121,706)
Total comprehensive (income) and expenditure		**57,773**	**0**	**35,021**	**0**	**0**	**0**	**92,794**	**(121,706)**	**(28,912)**
Adjustments between accounting basis & funding basis under regulations	6a	(65,179)	0	(34,976)	3,952	(2,119)	1,287	(97,035)	97,035	0
Net (increase) / decrease before transfers to earmarked reserves		**(7,406)**	**0**	**45**	**3,952**	**(2,119)**	**1,287**	**(4,241)**	**(24,671)**	**(28,912)**
Transfers (to) / from earmarked reserves	6a	8,247	(8,247)	0	0	0	0	0	0	0
(Increase) or decrease in year		**841**	**(8,247)**	**45**	**3,952**	**(2,119)**	**1,287**	**(4,241)**	**(24,671)**	**(28,912)**
Balance as at 31 March 2014	**6b**	**(22,970)**	**(27,319)**	**(18,008)**	**0**	**(4,964)**	**(4,326)**	**(77,587)**	**(174,575)**	**(252,162)**

Comprehensive Income and Expenditure Statement

2013/14 Gross Exp. £000s	2013/14 Gross Income £000s	2013/14 Net Exp. £000s	Service	2014/15 Gross Exp. £000s	2014/15 Gross Income £000s	2014/15 Net Exp. £000s	Notes
6,543	(3,670)	2,873	Central services to the public	6,861	(3,780)	3,081	
28,228	(8,393)	19,835	Cultural and related Services	32,566	(6,303)	26,263	
29,638	(11,049)	18,589	Environmental and regulatory services	46,811	(22,289)	24,522	
33,269	(7,737)	25,532	Planning services	15,332	(7,727)	7,605	
175,722	(131,040)	44,682	Children's and education services	171,826	(134,370)	37,456	
16,101	(4,676)	11,425	Highways & transport services	16,379	(3,674)	12,705	
55,069	(79,727)	(24,658)	Local authority housing (HRA)	53,418	(81,270)	(27,852)	
42,954	0	42,954	- asset revaluations	16,745	0	16,745	
94,647	(86,798)	7,849	Other housing services	91,639	(89,259)	2,380	
98,831	(30,586)	68,245	Adult social care	99,257	(34,740)	64,517	
14,610	(15,584)	(974)	Public Health	14,833	(15,924)	(1,091)	
7,816	(566)	7,250	Corporate & democratic core	8,929	(183)	8,746	
8,860	0	8,860	Non-distributed costs	(672)	0	(672)	
612,288	**(379,826)**	**232,462**	**Cost of services**	**573,924**	**(399,519)**	**174,405**	8
		35,537	Other operating expenditure			25,599	7c
		48,073	Financing and investment income & expenditure			43,645	7c
		(223,278)	Taxation and non-specific grant income			(215,608)	7c
		92,794	**(Surplus) or deficit on provision of services**			**28,041**	
		(7,916)	(Surplus) or deficit on revaluation of non-current assets			(26,877)	17
		(113,790)	Re-measurements of the net defined benefit liability			54,670	25
		0	(Surplus) or deficit on revaluation of available for sale financial assets			(494)	
		0	Other gains/losses			(92)	
		(121,706)	**Other comprehensive (income) and expenditure**			**27,207**	
		(28,912)	**Total comprehensive (income) and expenditure**			**55,248**	

Balance Sheet

31/03/14 £000s		31/03/15 £000s	Notes
1,236,489	Property, plant & equipment	1,283,666	17
20,929	Heritage assets	21,539	18
313	Investment property	100	
2,073	Intangible assets	1,666	
11,588	Long-term investments	12,077	26
16,496	Long-term debtors	18,016	22
1,287,888	**Long-term assets**	**1,337,064**	
35,036	Short-term investments	52,050	26
3,976	Assets held for sale	2,083	
2,935	Inventories	1,637	
50,040	Short-term debtors	55,785	22
21,650	Cash and cash equivalents	40,320	21
113,637	**Current assets**	**151,875**	
(14,010)	Cash and cash equivalents	(5,008)	21
(76,563)	Short-term borrowing	(67,729)	26
(3,315)	Short-term provisions	(5,879)	24
(62,116)	Short-term creditors	(73,041)	23
(156,004)	**Current liabilities**	**(151,657)**	
(25,355)	Long-term creditors	(70,590)	23
(4,305)	Long-term provisions	(5,495)	24
(503,685)	Long-term borrowing	(544,319)	26
(458,600)	Pensions liability	(519,760)	25
(1,414)	Capital grants receipts in advance	(204)	
(993,359)	**Long-term liabilities**	**(1,140,368)**	
252,162	**Net assets**	**196,914**	
	Usable reserves:		
(4,964)	Capital Receipts Reserve	(7,499)	
(4,326)	Capital Grants Unapplied	(6,243)	
(14,884)	General Fund - General Reserve	(15,570)	
(8,086)	General Fund - LMS Reserve	(7,816)	
(18,008)	Housing Revenue Account	(19,885)	
(27,319)	Earmarked Reserves	(35,342)	
0	Major Repairs Reserve	0	
(77,587)	**Total usable reserves**	**(92,355)**	6b
(174,575)	**Unusable reserves**	**(104,559)**	6b
(252,162)	**Total reserves**	**(196,914)**	

Signed: Date: 17 September 2015

Darren Collins
Strategic Director, Corporate Resources

Cash Flow Statement

2013/14 £000s		2014/15 £000s
92,794	**Net (surplus) or deficit on the provision of services**	**28,041**
	Adjustments to net surplus or deficit on the provision of service for non-cash movements:	
(36,108)	Depreciation of non-current assets	(37,863)
(60,210)	Impairment / downward revaluation of non-current assets	(30,368)
(820)	Amortisation of intangible non-current assets	(850)
(26,830)	Pension adjustments	(6,490)
(5,223)	Increase/decrease in impairment for provision for bad debts	(394)
(3,477)	Contributions (to) / from provisions	(3,754)
(29,873)	Carrying amount of PP&E, investment property, assets held for sale and intangible assets sold	(18,927)
0	Non-cash component of trading operation results	0
(2,844)	Other non-cash movement	(3,191)
(165,385)		**(101,837)**
	Accruals adjustments:	
1,115	(Decrease)/increase in inventories	(1,298)
14,249	(Decrease)/increase in debtors	6,845
(88)	(Decrease)/increase in interest debtors	16
(10,201)	Decrease/(increase) in creditors	(10,925)
(236)	Decrease/(increase) in interest creditors	(233)
4,839		**(5,595)**
	Adjustments for items included in the net surplus or deficit on the provision of service that are investing or financing activities:	
9,979	Proceeds from the disposal of PP&E, investment property, assets held for sale and intangible assets	8,106
19,532	Capital grants credited to surplus or deficit on the provision of services	19,316
29,511		**27,422**
	Reversal of operating activity items included in the net surplus or deficit on the provision of service that are shown separately below:	
(25,554)	**Reversals of amounts disclosed separately below**	**(25,466)**
	Cash flows from operating activities includes the following items:	
27,327	Interest paid	26,748
(1,304)	Interest received	(1,515)
26,023		**25,233**
(37,772)	**Net cash flows from operating activities**	**(52,202)**

	Net cash flows from investing activities:	
55,445	Purchase of PP&E, investment property, assets held for sale and intangible assets	55,803
559,463	Purchase of short term and long term investments	344,951
4,754	Other payments for investing activities	5,690
(9,979)	Proceeds from the sale of PPE, investment property, assets held for sale and intangible assets	(8,106)
(548,112)	Proceeds from the sale of short term and long term investments	(327,951)
(16,568)	Capital grants received (government)	(16,520)
0	Other receipts for investing activities	(494)
45,003	**Net cash flows from investing activities**	**53,373**
	Net cash flows from financing activities:	
(35,000)	Cash receipts of short and long term borrowing	(52,000)
0	Other receipts from financing activities	0
615	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on Balance Sheet PFI contracts	2,724
25,851	Repayment of short and long term borrowings	20,433
(8,534)	**Net cash flows from financing activities**	**(28,843)**
(1,303)	**Net (increase)/ decrease in cash and cash equivalents**	**(27,672)**

6,337	**Cash and cash equivalents at the beginning of the period**	**7,640**
7,640	**Cash and cash equivalents at the end of the period**	**35,312**

Notes to the Core Financial Statements

1. Significant Accounting Policies

This Statement of Accounts summarises the Council's transactions during the financial year and its position at the year-end. Legislation[14] requires that the Council prepare the Statement annually, and in accordance with proper practice (the local government Code of Practice, the Service Reporting Code of Practice (SeRCOP) and international standards).

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

The most significant policies affecting the Statement are included within the notes below.

All figures are rounded to the nearest thousand (£000s) unless otherwise stated.

2. Critical judgements in applying accounting policies

In applying its accounting policies, the Council has had to make certain judgements about the complex transactions or those involving uncertainty about future events. Where judgement has been applied, the key factors taken into consideration are disclosed within the relevant note. The most significant areas where judgements have been necessary are:

- **Leases:** risks and rewards of lease arrangements - finance or operating lease?
- **PFI:** should PFI assets and liabilities be on- or off-Balance Sheet?
- **Investment property:** do assets meet the definition of investment property?
- **Provisions and contingent liabilities:** are possible future liability provisions or contingent liabilities?
- **Group accounts:** does the value of subsidiaries and associates warrant the preparation of group accounts?

3. Events after the Balance Sheet date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period: the Statement of Accounts is adjusted to reflect such events; and
- those that are indicative of conditions that arose after the reporting period: the Statement of Accounts is not adjusted to reflect such events, but material events would require disclosure of their nature and estimated financial effect.

No events after the Balance Sheet date have been identified that would require any changes to or additional disclosure within this Statement of Accounts.

4. Accounting standards issued but not yet adopted

A number of changes to accounting standards may affect the Statement of Accounts from 1 April 2015 and may require retrospective application. Note that none of the changes are anticipated to have a material effect on the Statement of Accounts:

- IFRS 13 *Fair Value Measurement*: this change will affect the valuation methodology of the Council's surplus assets. It is not anticipated that changes will be material, but given the material value of the Council's surplus assets, it is possible that the changes could be material. The changes do not require retrospective restatement of figures.

[14] www.legislation.gov.uk/uksi/2011/817/pdfs/uksi_20110817_en.pdf

Note 4 continued…

- *Annual Improvements to IFRSs 2011–2013 Cycle*
- IFRIC 21 *Levies*

In addition, implementation of changes within the Code of Practice on Transport Infrastructure Assets is likely to occur from 2016/17, with full restatement required for 2015/16. This will have a material impact on the Council's Balance Sheet (estimated at c.£1bn) as transport assets valuations are carried out based on depreciated replacement cost rather than historic cost.

5. Assumptions made about future and other major sources of estimation uncertainty

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

The items in the Council's Balance Sheet at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- **Pension liabilities:** estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. Sensitivities are included in Note 25.
- **Depreciation:** assets are depreciated over their estimated useful lives and are based on assumptions about the level of repairs and maintenance that will be incurred and useful economic lives. Depreciation totalled £151.7m as at 31 March 2015: a change in methodology resulting in a 1% movement would change the Balance Sheet by £1.5m.
- **Revaluations:** asset valuations are carried out on a rolling programme of up to five years, meaning that there is a possibility of material changes in value between valuations. The risk is minimised by annual valuations of all significant assets and annual reviews of market conditions for all asset categories to ensure that the fair value of assets as at 31 March are not materially misstated. A 1% change in asset valuation would equate to a £12.8m, which would represent a material movement.
- **Provisions:** the Council makes prudent provision for likely future liabilities, such as insurance costs and the impact of unpaid debts. Changes in assumptions are very unlikely to materially affect the Statement of Accounts. A 1% change in provisions would equate to £0.1m, which would not be a material movement.

6. Movement in Reserves Statement adjustments

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year. The reserve is then appropriated back into the General Fund balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are for accounting purposes only, and do not represent usable resources. The Movement in Reserves Statement details all movements in the Council's usable reserves, and provides a summary of the movements in unusable reserves. The following tables provide further detail of the amounts disclosed in the Movement in Reserves Statement:

Note 6 continued…

a. Adjustments between accounting basis and funding under regulations: this section of the Movement in Reserves Statement details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure:

	General Fund	HRA	MRR	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
2014/15 movements (£000s)						
Charges for depreciation of non-current assets	(26,297)	0	(11,566)	0	0	*37,863
Impairment and revaluation losses (charged to Surplus or Deficit on the Provision of Services) of non-current assets	(13,785)	(16,745)	0	0	0	*30,530
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	19,316	0	0	0	(5,129)	*(14,187)
Revenue expenditure funded from capital under statute	(5,690)	0	0	0	0	*5,690
Net gain or loss on sale of non-current assets	(11,953)	948	0	(7,922)	0	†18,927
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	(5,883)	(607)	0	0	0	‡6,490
Statutory provision for repayment of debt	15,862	0	0	0	0	*(15,862)
Capital expenditure charged to the General Fund / HRA	1,770	9,044	0	0	0	*(10,814)
Other transfers to/from other reserves required by legislation	(4,350)	13	11,566	5,387	3,212	*(15,828)
Adjustments between accounting basis & funding basis under regulations	**(31,010)**	**(7,347)**	**0**	**(2,535)**	**(1,917)**	**42,809**

* All charged to Capital Adjustment Account; † includes £7.603m to Revaluation Reserve, £11.323m to Capital Adjustment Account; ‡ all charged to Pension Reserve

2013/14 movements (£000s)						
Charges for depreciation of non-current assets	(24,386)	0	(11,722)	0	0	*36,108
Impairment and revaluation losses (charged to Surplus or Deficit on the Provision of Services) of non-current assets	(17,256)	(41,602)	0	0	0	*58,858
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	18,692	839	0	0	(2,748)	*(16,783)
Revenue expenditure funded from capital under statute	(4,673)	(81)	0	0	0	*4,754
Net gain or loss on sale of non-current assets	(21,333)	1,265	0	(9,805)	0	†29,873
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	(25,945)	(885)	0	0	0	‡26,830
Statutory provision for repayment of debt	13,763	0	0	0	0	*(13,763)
Capital expenditure charged to the General Fund / HRA	736	5,486	0	0	0	*(6,222)
Other transfers to/from other reserves required by legislation	(4,777)	2	15,674	7,686	4,035	$(22,620)
Adjustments between accounting basis & funding basis under regulations	**(65,179)**	**(34,976)**	**3,952**	**(2,119)**	**1,287**	**97,035**

* All charged to Capital Adjustment Account; † includes £8.713m to Revaluation Reserve, £21.160m to Capital Adjustment Account; ‡ all charged to Pension Reserve; $ includes (£25.869m) charged to Capital Adjustment Account and £2.026m charged to Revaluation Reserve

Note 6 continued…

b. **Reserves:** the Council maintains a number of reserves, which are classified as either usable (backed by cash) or unusable (notional adjustment accounts not supported by cash):

Usable Reserves

The **General Fund** is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund balance, which is not necessarily in accordance with proper accounting practice. The General Fund balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

The General Fund is split between a General Reserve and reserves attributable to schools (LMS Budget Share Reserve). Spending on the provision of housing is also split between the General Fund and the Housing Revenue Account.

The **Housing Revenue Account (HRA)** reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

Earmarked Reserves are reserves set aside from General Fund resources in order to fund future, specific activities or cost pressures.

The **Capital Receipts Reserve** holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

The **Capital Grants Unapplied Reserve** holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

The **Major Repairs Reserve** is an earmarked HRA reserve, and controls the application of the Major Repairs Allowance (MRA). The MRA is restricted to being applied to new capital investment in HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the MRA that has yet to be applied at the year-end.

Unusable Reserves

The **Revaluation Reserve** contains gains made by the Council arising from increases in non-current asset values. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation; or
- disposed of and the gains are realised.

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

Note 6 continued…

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

The account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the Council. The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

The **Financial Instruments Adjustment Account** is a statutory reserve that accounts for the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The balance relates to deferred liabilities that regulations specify can continue to be recognised over the life of the replacement borrowing, and amounts relating to the re-measurement of soft loans entered into by the Council, which regulations allow to be recharged over the life of the loans.

The **Available for Sale Financial instruments Reserve** is a revaluation reserve reflecting changes in the estimated market value of available for sale financial instruments (currently includes Newcastle International Airport and SCAPE System Build Ltd).

Deferred Capital Receipts Reserve - Deferred Capital Receipts are created when a Council asset is sold and the receipt of income is delayed or payable in instalments. The deferred capital receipt is written down each year by the income that is received which is then recognised as a capital receipt.

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

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

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

Note 6 continued…

An analysis of the Council's reserves and details of any transfers to or from earmarked reserves are set out below:

Balance 31/03/14 £000s		Transfers in £000s	Transfers out £000s	Balance 31/03/15 £000s
	Useable reserves			
	General Fund balance:			
(14,884)	General Reserve	(8,709)	8,023	**(15,570)**
(8,086)	LMS Budget Share Reserve	0	270	**(7,816)**
(22,970)	General Fund	(8,709)	8,293	**(23,386)**
	Earmarked General Fund reserves:			
(3,000)	Insurance	0	0	(3,000)
0	Strategic change reserve	(2,500)	0	(2,500)
(1,314)	Grant clawback	0	0	(1,314)
(6,009)	Gateshead Development Pool	0	0	(6,009)
(2,657)	Developers' contributions	(165)	527	(2,295)
(3,012)	Unapplied revenue grants	(971)	316	(3,667)
(2,362)	Economic growth reserve	(1,540)	258	(3,644)
(5,000)	Business rates			(5,000)
(473)	Budget flexibility reserve	(1,510)	100	(1,883)
(611)	Discretionary Social Fund reserve	(556)	0	(1,167)
(961)	Public health reserve	(1,074)	0	(2,035)
(1,920)	DSG reserve	(908)	0	(2,828)
(27,319)	Total earmarked General Fund reserves:	(9,224)	1,201	**(35,342)**
(18,008)	Housing Revenue Account (HRA) balance	(1,877)	0	(19,885)
	Earmarked HRA reserves:			
0	Major Repairs Reserve	(11,566)	11,566	0
(4,964)	Capital Receipts Reserve	(8,384)	5,849	(7,499)
(4,326)	Capital Grants Unapplied	(5,130)	3,213	(6,243)
(77,587)	**Total usable reserves**	**(44,890)**	**30,122**	**(92,355)**
	Unusable reserves			
(90,706)	Revaluation Reserve	(26,878)	9,637	(107,947)
(535,161)	Capital Adjustment Account	(59,060)	84,171	(510,050)
3,988	Financial Instrument Adjustment Account	(94)	0	3,894
(11,331)	Available for Sale Financial instruments Reserve	(494)	0	(11,825)
(2,113)	Deferred Capital Receipts Reserve	0	188	(1,925)
(1,324)	Collection Fund Adjustment Account	0	1,450	126
3,472	Accumulated Absences Account	(64)	0	3,408
458,600	Pensions Reserve	0	61,160	519,760
(174,575)	**Total unusable reserves**	**(86,590)**	**156,606**	**(104,559)**
(252,162)	**Total reserves of the Council**	**(131,480)**	**186,728**	**(196,914)**

7. Comprehensive Income and Expenditure Statement (CIES) information

a. Key accounting policies:

Accruals of expenditure and income

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

- Income from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Income from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet. Expenses relating to services are recorded as expenditure when they are received rather than when payments are made;
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract; and
- Where revenue and expenditure have been recognised but cash has not been received or paid (subject to a *de minimis* threshold of £1,000), a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to the CIES for the income that might not be collected.

Overheads

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the SeRCOP. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of *Corporate and Democratic Core* (costs relating to the Council's status as a multi-functional, democratic organisation) and *Non-Distributed Costs* (the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties); these are accounted for as separate headings in the CIES.

Charges to revenue for non-current assets

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

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

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis as determined by the Council in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by a minimum revenue provision (MRP) in the General Fund, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Note 7 continued…

Value Added Tax (VAT)

VAT is included in the Comprehensive Income and Expenditure Statement only to the extent that it is irrecoverable from HM Revenue and Customs.

b. Material items of income or expense:

Any material items of income or expense within the accounts have been disclosed elsewhere within the notes; these relate to depreciation and downward revaluations (£37.863m and £30.530m respectively; *see Notes 6a, 17 and HRA Notes 6 and 7*), actuarial pension adjustments (£54.670m; *see Notes 6a and 25*), and surpluses on revaluation (£26.877m; *see Note 17*).

c. Analysis of items below Cost of Services:

2013/14 £000s		2014/15 £000s
	Other operating expenditure	
19,894	(Gains) / losses on the disposal of non-current assets	10,822
	Precepts and levies:	
144	Environment Agency levy	156
22	Tyne Port Health Authority precept	20
12,737	Tyne and Wear Integrated Transport Authority levy	12,319
8	Lamesley Parish Council precept	8
2,732	Payments to the housing capital receipts pool	2,274
35,537		**25,599**
	Financing and investment income and expenditure	
29,313	Interest payable and similar charges	29,838
23,170	Net interest on defined benefit liability / (asset)	18,920
(2,099)	Interest receivable and similar income	(1,588)
(2,311)	(Surpluses) / deficits on trading activities	(3,525)
48,073		**43,645**
	Taxation and non-specific grant income	
(69,952)	Council tax income	(73,920)
(93,376)	Government grants not attributable to services	(81,167)
(19,531)	Capital grants and contributions	(19,316)
(40,419)	Business rates redistribution	(41,205)
(223,278)		**(215,608)**

8. Segmental analysis

This note reports revenues against budgets analysed in line with the Council's internal management reporting arrangements and reconciles this with the Comprehensive Income and Expenditure Statement.

The format of the information is in line with the outturn reports received by the Council's Cabinet. The Council undertook a functional review in 2014/15 that resulted in changes to its Group structure, meaning that information reported to Cabinet was presented differently in 2013/14 and 2014/15. For reasons of practicality, 2013/14 information has not been restated to reflect the revised structure but high level comparison remains valid:

Note 8 continued…

Service (2014/15)	Revised Budget £000s	Outturn £000s	Budget variance £000s
Care, Wellbeing & Learning			
Social Work - Children & Families	20,740	21,023	283
Children & Families Support	5,554	4,698	(856)
Children's Commissioning	4,956	5,079	123
Learning & Schools	2,866	2,969	103
Adult Social Care & Independent Living	63,093	60,594	(2,499)
Commissioning & Business Development	7,738	8,049	311
Housing General Fund	587	946	359
Public Health	15,832	14,758	(1,074)
Communities & Environment			
Development & Public Protection	2,642	2,598	(44)
Energy Strategy & Design Services	37	(69)	(106)
Transport Strategy	3,026	3,269	243
Culture, Communities & Volunteering	7,148	7,088	(60)
Commissioning & Business Development	223	175	(48)
Facilities Management & Leisure	4,407	4,701	294
Waste Services & Grounds Maintenance	14,608	14,879	271
Construction Services	4,759	4,751	(8)
Policy, Economic Growth & Transformation			
Policy, Transformation & Communications	1,927	1,814	(113)
Economic & Housing Growth	2,358	2,454	96
Corporate Services & Governance			
Democratic, Legal & Property Services	829	1,198	369
Human Resources & Litigation	2,635	2,408	(227)
Corporate Commissioning & Procurement	489	552	63
Corporate Resources			
Corporate Finance	1,349	1,240	(109)
Customer & Financial Services	4,056	4,012	(44)
Housing Benefits	(711)	(608)	103
ICT Services	2,369	2,379	10
Other services & contingencies	5,628	5,202	(426)
Capital financing costs	28,690	27,380	(1,310)
Investment income	(1,302)	(1,419)	(117)
Subtotal before levies	**206,533**	**202,120**	**(4,413)**
Total levies	12,475	12,475	0
Net spend before financing	**219,008**	**214,595**	**(4,413)**
Construction trading account	**0**	**(1,285)**	**(1,285)**
	219,008	**213,310**	**(5,698)**
Financed by:			
Settlement Funding Assessment	(117,067)	(117,067)	0
Other grants	(12,856)	(12,899)	(43)
Public health	(15,832)	(15,832)	0
Council tax	(71,253)	(71,253)	0
Collection Fund	(2,000)	(2,000)	0
Earmarked reserves	0	1,015	1,015
Total funding	**(219,008)**	**(218,036)**	**972**
Net spend	**0**	**(4,726)**	**(4,726)**

Note 8 continued…

Service (2013/14)	Revised Budget £000s	Outturn £000s	Budget variance £000s
Learning & Children			
Business Support	732	1,046	314
Learning & Schools	2,412	2,196	(216)
Children & Families Support	7,272	6,509	(763)
Children's Commissioning	5,230	5,031	(199)
Social Work - Children and Families	20,174	21,122	948
Community Based Services			
Communities, Neighbourhoods and Volunteering	2,016	2,126	110
Social Care & Independent Living	62,751	61,571	(1,180)
Commissioning & Business Development	8,306	7,453	(853)
Libraries, Sport & Culture	9,608	9,664	56
Public Health	15,401	14,440	(961)
Housing General Fund	940	932	(8)
Housing Benefits	(665)	(184)	481
Development & Enterprise			
Transport Strategy	2,745	2,985	240
Development & Public Protection	2,009	2,271	262
Economic & Housing Growth	3,088	2,938	(150)
Property & Design	(1,659)	(1,322)	337
Local Environmental Services	23,408	23,150	(258)
Central Services			
Chief Executives & Communications	1,918	1,956	38
Legal and Corporate Services	5,954	5,737	(217)
Finance & ICT	6,637	5,928	(709)
Other services & contingencies	7,269	10,152	2,883
Capital financing costs	27,170	23,819	(3,351)
Investment income	(548)	(1,869)	(1,321)
Subtotal before levies	**212,168**	**207,651**	**(4,517)**
Total levies	12,881	12,881	0
Net spend before financing	**225,049**	**220,532**	**(4,517)**
Financed by:			
Start Up Funding Assessment	(128,376)	(128,376)	0
Other grants	(10,577)	(11,578)	(1,001)
Public health	(15,401)	(15,401)	0
Council tax	(67,491)	(67,491)	0
Collection Fund	(2,000)	(2,000)	0
Earmarked reserves	(1,204)	611	1,815
Total funding	**(225,049)**	**(224,235)**	**814**
Net spend	**0**	**(3,703)**	**(3,703)**

Note 8 continued…

Reconciliation between the segmental reporting analysis and an analysis of total income & expenditure (subjective analysis)

2013/14		2014/15							
Total £000s	Service	Service Analysis £000s	Not reported in service accounts £000s	Not included in CI&E £000s	Support services' reallocation £000s	Other £000s	Net Cost of Services £000s	Corporate Amounts £000s	Total £000s
(319,721)	Government grants & contributions	(220,308)	(16,740)	0	0	0	(237,048)	(81,167)	**(318,215)**
(58,782)	Other Grants	(23,996)	0	0	0	0	(23,996)	(19,316)	**(43,312)**
(53,592)	Customer & Client Receipts	(66,600)	(1,216)	162	3,923	0	(63,731)	0	**(63,731)**
(37)	Interest Received	(2,757)	0	1,419	0	0	(1,338)	0	**(1,338)**
(2,865)	Internal Recharges	(29,829)	503	0	19,740	0	(9,586)	0	**(9,586)**
(9,394)	Miscellaneous Recharges	(43,239)	0	0	0	(49)	(43,288)	0	**(43,288)**
(2,099)	Investment Income	0	0	0	0	0	0	(1,588)	**(1,588)**
(69,952)	Council Tax	0	0	0	0	0	0	(73,920)	**(73,920)**
(40,419)	NNDR	0	0	0	0	0	0	(41,205)	**(41,205)**
(555,861)	**Total Income**	(386,729)	(17,453)	1,581	23,663	(49)	(378,987)	(217,196)	**(596,183)**
210,257	Employee expenses	217,582	(12,925)	1,481	(23,663)	0	182,475	18,920	**201,395**
27,788	Premises	22,817	5,832	0	0	0	28,649	0	**28,649**
13,071	Transport	14,760	0	0	0	0	14,760	0	**14,760**
47,245	Supplies & Services	67,973	0	0	0	0	67,973	0	**67,973**
218,450	Third Party / Transfer Payments	210,504	0	0	0	0	210,504	0	**210,504**
7,393	Support Services	17,178	(493)	0	0	0	16,685	0	**16,685**
1,581	Capital Financing	29,856	0	(27,380)	0	0	2,476	0	**2,476**
46,888	Capital Charges	1,700	39,108	(1,762)	0	0	39,046	0	**39,046**
12,911	Precepts & Levies	12,475	0	(12,475)	0	0	0	12,503	**12,503**
(597)	Trading	0	0	1,496	0	0	1,496	(3,525)	**(2,029)**
(233)	Other	0	0	0	0	0	0	0	**0**
29,313	Interest Payable	0	0	0	0	0	0	29,838	**29,838**
2,732	Payments to Housing Capital Receipts Pool	0	0	0	0	0	0	2,274	**2,274**
19,894	Gain / Loss on Disposal of Assets	0	0	0	0	0	0	10,822	**10,822**
18,962	Housing Revenue Account (HRA)	0	(10,672)	0	0	0	(10,672)	0	**(10,672)**
649,655	**Total Operating Expenses**	594,845	20,850	(38,640)	(23,663)	0	553,392	70,832	**624,224**
92,794	**Surplus or deficit on provision of services**	**208,116**	**3,397**	**(37,059)**	**0**	**(49)**	**174,405**	**(146,364)**	**28,041**

Note 8 continued…

2013/14 £000s		2014/15 £000s
220,532	**Cost of Services in Service Analysis**	**208,116**
46,615	Amounts not included in the analysis but included in the Comprehensive Income & Expenditure Statement	3,397
(34,711)	Amounts included in the analysis but not included in the Comprehensive Income & Expenditure Statement	(37,059)
26	Other	(49)
232,462	**Net Cost of Services**	**174,405**

9. Councillors' allowances

The total of councillors' allowances (and expenses) paid in the year was as follows:

2013/14 £000s		2014/15 £000s
668	Basic allowance	668
368	Special responsibility allowance	365
18	Other allowances and expenses	19
1,054	**Total**	**1,052**

10. Dedicated Schools Grant

School funding for local authorities in England is provided by a ringfenced grant called Dedicated Schools Grant (DSG) from the Department for Education. DSG is accounted for as part of the cost of services under *Children's and Education Services* within the Comprehensive Income and Expenditure Statement.

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

Details of the deployment of DSG receivable for 2014/15 are as follows:

	Central expenditure £000s	ISB £000s	Total £000s
Final DSG for 2014/15 before academy recoupment	23,345	111,300	134,645
Less: academy figure recouped for 2014/15	(734)	(36,585)	(37,319)
Total DSG after Academy Recoupment 2014/15	**22,611**	**74,715**	**97,326**
Plus: brought forward from 2013/14	0	0	**1,920**
Agreed initial budgeted distribution in 2014/15	**22,611**	**74,715**	**99,246**
In-year adjustments	7	0	**7**
Final budgeted distribution in 2014/15	**22,618**	**74,715**	**99,253**
Less: actual central expenditure	(21,710)	0	**(21,710)**
Less: actual ISB deployed to schools	0	(74,715)	**(74,715)**
Carry-forward to 2015/16	**908**	**0**	**2,828**

11. External audit costs

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

2013/14 £000s		2014/15 £000s
173	Fees for external audit services carried out for the year	172
28	Fees for certification of grant claims / returns for the year and other work	31
(24)	2013/14 audit fees rebate (Audit Commission)	0
177		**203**

12. Government and non-government grants

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

- the Council will comply with the conditions attached to the payments; and
- the grants or contributions will be received

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

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

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

The Council has deviated from the Code in an immaterial way with regard to the treatment of unspent, non-conditional revenue grant income and contributions. The recommended treatment, defined within the Code of Practice, is to appropriate any income unspent at the year-end into an earmarked reserve. However, the Council has set a threshold of £100,000; any grants below this level are classified as receipts in advance (within creditors on the Balance Sheet; see also Note 6b). The reasons for this are operational: approval from Cabinet is required to appropriate funds from reserves, which is not practical for small amounts on a regular basis, and it would increase the complexity and reduce the transparency of the Council's budget monitoring processes. The value of the Code deviation was £1.024m in 2014/15 (£0.252m in 2013/14).

Note 12 continued…

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

2013/14 £000s		2014/15 £000s
	a) General government grants not attributable to Services	
(76,777)	Revenue Support Grant	(64,059)
(9,499)	Top Up Grant	(9,684)
(7,108)	Other Grants	(7,424)
(93,384)		**(81,167)**
	b) Specific government grants attributable to Services	
(11,720)	Department of Communities & Local Government	(8,353)
(113,114)	Department for Education	(117,879)
(87,674)	Department for Work and Pensions	(89,269)
(15,401)	Public Health	(15,832)
(5,215)	Joint / Other	(6,055)
(233,124)		**(238,494)**
0	**c) Specific non-government grants attributable to Services**	**(25)**
	d) Capital grant income not attributable to Services	
(728)	Department of Communities & Local Government	(750)
(3,910)	Department for Education	(6,224)
(1,160)	European Regional Development Fund	(671)
(8,371)	Other government grants	(8,896)
(1,964)	Other non-government grants	(1,163)
(16,133)		**(17,704)**
(342,641)	**Total grants and government contributions**	**(337,390)**
	e) Other contributions and Donations	
(29,697)	Other revenue contributions attributable to Services	(41,056)
(435)	Other capital contributions not attributable to Services	(1,305)
(2,964)	Donated assets not attributable to Services	(307)
(33,096)	**Total other contributions**	**(42,668)**

13. Leases

Leases are classified as finance leases only where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property from the lessor to the lessee. Any other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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

The Council has no material finance leases, but has a number of operating leases as detailed below:

Note 13 continued…

The Council as lessor

Operating leases

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

The Council leases out property and equipment under operating leases for the provision of community services and for economic development purposes. The total values of future minimum lease payments receivable under non-cancellable operating leases are as follows:

	31/03/14 £000s	31/03/15 £000s
Not later than one year	3,155	3,334
Later than one year and not later than five years	6,667	6,878
Later than five years	43,938	42,920
	53,760	**53,132**

14. Officers' remuneration

The number of employees (including schools) whose remuneration (excluding pension contributions) was over £50,000 is summarised below. The table has been prepared including and excluding the effect of any redundancies taking place in 2014/15 to indicate the cost impact on senior staff:

Remuneration Band	Number of Employees			
	Including the effects of redundancies		Excluding the effects of redundancies	
	2013/14	2014/15	2013/14	2014/15
£50,000 - £54,999	56	37	50	35
£55,000 - £59,999	31	30	28	30
£60,000 - £64,999	34	27	30	23
£65,000 - £69,999	22	16	15	16
£70,000 - £74,999	19	13	12	12
£75,000 - £79,999	8	8	4	8
£80,000 - £84,999	9	4	8	3
£85,000 - £89,999	1	2	1	2
£90,000 - £94,999	3	3	2	3
£95,000 - £99,999	4	3	4	3
£100,000 - £104,999	0	0	0	0
£105,000 - £109,999	2	0	1	0
£110,000 - £114,999	1	0	0	0
£115,000 - £119,999	0	0	0	0
£120,000 - £124,999	2	0	1	0

Remuneration of the Chief Executive and Strategic Directors has been excluded above; details of these payments are as follows:

Note 14 continued…

Remuneration of senior employees 2014/15						
Post holder information (2014/15)	Notes	Salary (inc. fees & allowances) £	Expense allowances £	Benefits in kind £	Pension contributions £	**Total remuneration £**
Chief Executive, J Robinson	1	158,307	14,303	4,152	24,854	**201,616**
Assistant Chief Executive		107,211	0	7,112	16,832	**131,155**
Strategic Director, Corporate Resources		107,211	0	0	17,420	**124,631**
Strategic Director, Corporate Services and Governance		112,569	0	4,601	17,673	**134,843**
Strategic Director, Care, Wellbeing and Learning		112,569	0	5,908	17,673	**136,150**
Strategic Director, Communities and Environment		112,569	0	2,220	17,673	**132,462**
Strategic Director, Transformation Programme		112,569	0	636	17,673	**130,878**
Locality Director of Public Health	2	91,800	0	740	12,852	**105,392**
		914,805	**14,303**	**25,369**	**142,650**	**1,097,127**

Note 1: £14,303 is Returning Officer fees for European election and Council election
Note 2: Salary to 31/12/14: £91,343, salary from 01/01/15: £93,170

Remuneration of senior employees 2013/14						
Post holder information (2013/14)	Notes	Salary (inc. fees & allowances) £	Expense allowances £	Benefits in kind £	Pension contributions £	**Total remuneration £**
Chief Executive, J Robinson		158,307	0	6,527	23,271	**188,105**
Assistant Chief Executive		101,964	0	7,563	14,989	**124,516**
Strategic Director, Finance and ICT	1	104,959	0	5,134	14,879	**124,972**
Strategic Director, Legal and Corporate Services	2	117,494	0	7,134	17,272	**141,900**
Strategic Director, Community Based Services		112,569	0	5,597	16,548	**134,714**
Strategic Director, Learning and Children		112,569	0	3,991	16,548	**133,108**
Strategic Director, Development & Enterprise	3	115,383	0	6,907	16,961	**139,251**
Locality Director of Public Health	4	83,947	0	5,134	11,407	**100,488**
		907,192	**0**	**47,987**	**131,875**	**1,087,054**

Note 1: Responsibility Allowance payable up to 30.06.13 total amount included £4,243
Note 2: Responsibility Allowance payable up to 30.06.13 total amount included £4,925
Note 3: Responsibility Allowance payable up to 30.06.13 total amount included £2,814
Note 4: Post and responsibilities transferred from 1 April 2013

Note 14 continued…

Termination benefits / Exit packages

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis within the Cost of Services in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed, without realistic possibility of withdrawal, to either terminating the employment of an officer / group of officers or making an offer to encourage voluntary redundancy.

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

The table below shows that the 2014/15 Statement of Accounts recognises a cost of £7.338m in relation to an estimated 175 compulsory redundancies (CRs) and 129 other redundancies. The CRs include a provision for anticipated CRs during 2015/16 based on expected savings. This included voluntary redundancies (VRs) and the non-renewal of fixed-term contracts. The cost includes redundancy payments to employees and strain on the fund costs payable to the appropriate pension fund:

2013/14					2014/15			
Number			Cost	Exit package cost band	Number			Cost
CRs	VRs	Total	£000s		CRs	VRs	Total	£000s
240	103	343	2,934	£0 - £20,000	0	90	90	702
5	28	33	916	£20,001 - £40,000	175	15	190	4,624
0	13	13	668	£40,001 - £60,000	0	7	7	339
1	5	6	414	£60,001 - £80,000	0	4	4	268
0	4	4	362	£80,001 - £100,000	0	6	6	534
0	3	3	337	£100,001 - £150,000	0	6	6	685
0	1	1	181	£150,001 - £200,000	0	1	1	186
246	**157**	**403**	**5,812**	**Total**	**175**	**129**	**304**	**7,338**

15. Related party transactions

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

Central government

The United Kingdom government has significant influence over the general operations of the Council: it is responsible for providing the statutory framework within which the Council operates, and provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 8 on reporting for resources allocation decisions, and are analysed in Note 12.

Note 15 continued…

Councillors

Elected councillors have direct control over the Council's financial and operating policies. The total of councillors' allowances paid in 2014/15 is shown in Note 9.

During 2014/15, no works and services were commissioned from companies in which councillors had an interest, and the Council entered into no related party transactions with councillors. Details of councillors' interests are recorded in the Register of Councillors' Interests (updated annually); open to public inspection at the Civic Centre during office hours.

Senior officers

During 2014/15, no related party transactions were entered into with senior officers or their close family members.

Joint arrangements

The Council is involved with a number of entities that are not legally distinct bodies, such as joint committees. These have been established to aid joint working between local authorities, and as such any material assets or liabilities attributable to the Council will be included in the Balance Sheet. Any income or expenditure is accounted for within the Comprehensive Income and Expenditure Statement.

For the Council, the only significant asset attributable to the Council is the Shipley Art Gallery, held by Tyne and Wear Archives and Museums. This is included in the Council's Balance Sheet (it should be noted that the asset is held in trust in perpetuity by the Council). Assets attributable to the Council held by Tyne and Wear Archives and Museums are also held on the Balance Sheet (see Note 18).

The main joint arrangements identified during 2014/15 were as follows:

- Tyne and Wear Archives and Museums Joint Committee
- Mountsett Crematorium
- North East Procurement Organisation (NEPO)

The above bodies' assets attributable to the Council have not been included on the Balance Sheet on materiality grounds. The only significant balance at the year-end related to the cash balance owed to NEPO (£2.989m).

Entities controlled or significantly influenced by the Council

Newcastle Airport

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. On 4 May 2001, the seven local authority shareholders of NIAL (the "LA7") created NIAL Holdings Limited, which is 51% owned by LA7 and 49% owned by AMP Capital Investors Limited following their purchase on 16 November 2012. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited (NALAHCL), a company wholly owned by the seven authorities. NALAHCL has a called up share capital of 10,000 shares with a nominal value of £1 each.

The Council holds a 13.33% interest in NALAHCL, valued at £11.583m. The shares are not held for trading outside of the LA7.

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially change the valuation. The last valuation is based on the sale of shares to AMP Capital Investors Limited in 2012. As no such events have occurred during 2014/15 the valuation has remained unchanged.

Note 15 continued…

Through its shares in NALAHCL the Council has an effective shareholding of 6.80% in NIAL (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of NIAL (registered number 2077766) is the provision of landing services for both commercial and freight operators. No dividend was received for the year ended 31 December 2014 (£0.306m for the year ended 31 December 2013).

Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012/13, issuing £67.665m shareholder loan notes. The loan notes will be repayable in 2032 with interest being received up to that date on a six monthly basis. Otherwise there are no outstanding balances owed to or from NIAL at the end of the year.

NIAL Group Limited made a profit before tax of £0.496m and a profit after tax of £0.277m for the year ended 31 December 2014. In the previous year, the Group made a loss before tax of £11.134m and a loss after tax of £3.615m.

The Gateshead Trading Company
The Gateshead Trading Company Ltd is a wholly owned subsidiary of Gateshead Council limited by shares. The Council owns all of the shares of the company and the share capital of the company is £100 divided into 100 ordinary shares of £1 each. 2010/11 was the first year of active trading. Its activities during 2014/15 included construction, design services and economic development. The company's turnover in 2014/15 was £1.603m (£0.876m in 2013/14), with retained balances before dividends of £0.177m (£0.225m in 2013/14). No dividend was recommended (£0.136m in 2013/14).

The Council is the sole shareholder of the company, which does not hold any material balances outside of the Council's accounts.

The Gateshead Housing Company
The Gateshead Housing Company (TGHC) was formed in 2004 and is the arm's length management company for Gateshead Council which means that they manage and maintain the Council's housing stock.

TGHC is paid a management fee for managing the Council's housing stock, which is agreed annually. In 2014/15, a management fee of £34.217m was paid through the HRA in relation to the repairs, maintenance, supervision and management of the housing stock. A three-year repairs and maintenance contract was awarded to the Mears Group from 1 April 2012.

In 2014/15, TGHC also received £1.0m for managing the Council's Decent Homes and housing regeneration projects.

TGHC created a charitable subsidiary in 2009, with the purpose of providing new energy-efficient homes. Keelman Homes is a company limited by guarantee. It began trading in June 2010 when it received a loan from the Homes and Communities Agency to build new properties at Kibblesworth which was completed in 2013. There is a management agreement in place between TGHC and Keelman Homes.

Gateshead Regeneration Partnership
On 27 March 2012, the Council formally appointed Evolution Gateshead, a consortium of Home Group and Galliford Try, as partner in a joint venture vehicle to be known as the Gateshead Regeneration Partnership (GRP) as part of the Council's Housing Market Renewal and Growth Strategy.

The Council has 50% control of this partnership. The first sites were transferred to GRP for development from Council ownership in March 2014, which generated a loss on disposal of £5.7m. Construction has commenced on the first tranche of sites at Bensham and Saltwell, Avon Street and Birtley and work is ongoing around the development of future sites.

16. Trading operations

Trading operations are required to be re-apportioned across services if failure to do so would result in a material misstatement in the reported total cost of services. As the balances are not material, they are not re-apportioned in the Comprehensive Income and Expenditure Statement (see Note 7 for details). The Council operates one significant trading operation and a number of smaller ones as follows:

2013/14 (Profits) / Losses £000s		2014/15 Income £000s	2014/15 Expenditure £000s	2014/15 (Profits) / Losses £000s
(979)	Construction	(47,407)	44,978	(2,429)
(244)	Cleaning of buildings	(4,112)	4,112	0
(31)	Security	(972)	1,072	100
(480)	School meals	(5,983)	5,465	(518)
(661)	Fleet	(7,404)	6,565	(839)
92	Civic restaurants	(975)	1,136	161
(8)	Other	0	0	0
(2,311)		**(66,853)**	**63,328**	**(3,525)**

17. Property, plant and equipment

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

- **Recognition** - Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. The Council has a de-minimis level of £10,000 for the initial recognition of an asset on the Balance Sheet, although individual assets with a value less than this may be capitalised if they form part of a larger investment programme which exceeds the de-minimis level (such as the acquisition of vehicles or ICT equipment) or relate to specific external funding requirements. Any expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

- **Measurement** - property, plant and equipment are valued on the basis recommended by CIPFA and in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Standards (9th edition).

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

  - Infrastructure assets, community assets, vehicles, plant & equipment and assets under construction (excluding investment property) are included in the Balance Sheet at historical cost, net of depreciation, where appropriate;
  - Dwellings are measured at fair value, determined using the basis of Existing Use Value for Social Housing (EUV-SH); and
  - All other classes of asset are measured at fair value. For land and buildings, the fair value is considered to be the amount that would be paid for the asset in its existing use.

  Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations

Note 17 continued…

are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service revenue account.

Where there is a decrease in valuations, the carrying amount of the asset is written down against the balance of any accumulated gains in the Revaluation Reserve and then against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The carrying amounts of property, plant and equipment are reviewed where there is evidence of impairment such as where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment.

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

Valuations are carried out on a rolling programme basis, with 20% of assets (by quantity) valued each year. This provides a full revaluation every five years, in line with statutory requirements. In addition, HRA dwellings (housing stock), the Civic Centre, BALTIC Centre for Contemporary Art and Sage Gateshead (assets where the Council's valuation officer considers a five yearly valuation may not be sufficient to keep pace with potential material changes in value) are valued annually. Property with a value of less than £40,000 is treated as de-minimis.

The housing stock is valued on the basis of Existing Use Value as Social Housing (EUV-SH). In accordance with government guidance on housing resource accounting, a sample of properties was chosen to be representative of each type of property and valued as 'beacons'. The full valuation was obtained by extrapolating these beacon values across the whole housing stock. These beacon values are reviewed annually to reflect movements in property market values.

Valuations are carried out by the Council's valuation officer, D Gillbanks BSc(Hons) FRICS, as at 1 April in the reporting period (with the exception of the energy from waste facility, valued externally by DTZ due to its specialist nature).

Disposal of Assets - when an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the *Other Operating Expenditure* line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any income arising from the disposal of an asset in excess of £10,000 is categorised as a capital receipt. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

- **Depreciation** - IAS 16 *Property, Plant and Equipment*[15] requires depreciation to be provided for all non-current assets with a finite useful life (which is determined at the time of acquisition or revaluation) according to the following policy:
  - A full year's depreciation is charged on newly acquired assets in the year of acquisition, although assets in the course of construction are not depreciated until they are brought into use;

[15] See http://www.ifrs.org/Documents/IAS16.pdf

Note 17 continued…

- Depreciation is calculated using the straight-line method; and
- Generally, assets are depreciated in accordance with the following estimate of useful lives:

Computers and other equipment	3-10 years
Vehicles (depending on make, model and use)	3-10 years
Buildings (depending on use, construction type and condition)	15-50 years
Infrastructure assets (excluding Millennium Bridge below)	30 years
Gateshead Millennium Bridge	120 years
Council dwellings	50 years

An exception to the above policy is made for assets without a determinable finite useful life such as land, which is not depreciated.

Another requirement of IAS 16 is that separate charges are made for the depreciation of major components of a single asset, where significant components of the asset have materially different useful economic lives. The Council has split its assets into separate components where the following criteria are met:

- The total asset has a value greater than £1m;
- The component has a value of greater than 20% of the total asset; and
- The component has a useful life which differs by 10 years or more from any other component of the asset.

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

Note 17 continued…

	Other land and buildings at fair value	Buildings under finance lease at fair value*	Assets under construction at cost	Vehicles, plant and equipment at cost	Equipment under finance lease at cost	Council dwellings at fair value	Infrastructure at cost	Community assets at cost	Surplus assets	**Total**
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Cost or valuation										
Balance at 1 April 2013	**447,467**	**0**	**723**	**66,616**	**350**	**683,745**	**146,323**	**4,680**	**86,264**	**1,436,168**
Reclassifications	10,706	0	(9)	(1)	0	(99)	0	0	(15,139)	(4,542)
Additions	14,516	0	589	7,868	0	22,298	6,373	259	2,209	54,112
Donations	2,950	0	0	0	0	0	0	0	0	2,950
Disposals	(17,500)	0	0	(3,322)	0	(5,189)	0	0	(5,986)	(31,997)
Revaluation increase/(decrease) to Revaluation Reserve	9,369	0	0	0	0	(5,935)	0	0	(3,064)	370
Revaluation increase/(decrease) to Comprehensive I&E	(7,026)	0	0	0	0	(41,008)	0	0	(12,251)	(60,285)
Impairment Charged to Revaluation Reserve	(374)	0	0	0	0	(194)	0	0	0	(568)
Impairment Charged to Comprehensive I&E	(1,273)	0	0	0	0	(11,364)	0	0	(2,176)	(14,813)
Balance at 1 April 2014	**458,835**	**0**	**1,303**	**71,161**	**350**	**642,254**	**152,696**	**4,939**	**49,857**	**1,381,395**
Reclassifications	(429)	0	0	0	0	(4)	0	24	(852)	(1,261)
Additions	15,605	50,288	1,234	4,552	0	20,679	12,068	181	976	105,583
Donations	0	0	0	0	0	0	0	0	0	0
Disposals	(12,255)	0	0	(2,790)	0	(4,089)	0	0	(78)	(19,212)
Revaluation increase/(decrease) to Revaluation Reserve	7,558	8,245	0	0	0	2,003	0	(65)	54	17,795
Revaluation increase/(decrease) to Comprehensive I&E	(18,179)	0	0	0	0	(21,735)	0	(276)	(15)	(40,205)
Impairment Charged to Revaluation Reserve	(14)	0	0	0	0	0	0	0	0	(14)
Impairment Charged to Comprehensive I&E	(2,925)	0	0	0	0	(5,797)	0	0	0	(8,722)
Balance at 31 March 2015	**448,196**	**58,533**	**2,537**	**72,923**	**350**	**633,311**	**164,764**	**4,803**	**49,942**	**1,435,359**

* Refers to the Council's waste PFI facility

Note 17 continued…

Accumulated Depreciation	Other land and buildings at fair value £000s	Buildings under finance lease at fair value £000s	Assets under construction at cost £000s	Vehicles, plant and equipment at cost £000s	Equipment under finance lease at cost £000s	Council dwellings at fair value £000s	Infrastructure at cost £000s	Community assets at cost £000s	Surplus assets £000s	**Total** £000s
Balance at 1 April 2013	**(33,795)**	**0**	**0**	**(51,147)**	**(350)**	**(12,307)**	**(37,433)**	**0**	**(1,468)**	**(136,500)**
Reclassifications	719	0	0	(1)	0	1	(1)	0	(582)	136
Disposals	647	0	0	2,397	0	93	0	0	286	3,423
Depreciation written out to Revaluation Reserve on Revaluation	6,021	0	0	0	0	1,441	0	0	329	7,791
Depreciation written out to Comprehensive I&E on Revaluation	4,658	0	0	0	0	10,373	0	0	416	15,447
Depreciation	(14,834)	0	0	(5,292)	0	(11,569)	(4,017)	0	(396)	(36,108)
Depreciation written out to Revaluation Reserve on Impairment	6	0	0	0	0	0	0	0	0	6
Depreciation written out to Comprehensive I&E on Impairment	278	0	0	0	0	398	0	0	223	899
Balance at 1 April 2014	**(36,300)**	**0**	**0**	**(54,043)**	**(350)**	**(11,570)**	**(41,451)**	**0**	**(1,192)**	**(144,906)**
Reclassifications	217	0	0	0	0	0	1	(26)	(41)	151
Disposals	240	0	0	2,640	0	74	0	0	0	2,954
Depreciation written out to Revaluation Reserve on Revaluation	8,381	0	0	0	0	699	0	10	205	9,295
Depreciation written out to Comprehensive I&E on Revaluation	7,150	0	0	0	0	10,564	0	15	0	17,729
Depreciation	(13,711)	(2,337)	0	(5,479)	0	(11,400)	(4,513)	0	(424)	(37,864)
Depreciation written out to Revaluation Reserve on Impairment	3	0	0	0	0	0	0	0	0	3
Depreciation written out to Comprehensive I&E on Impairment	712	0	0	0	0	233	0	0	0	945
Balance at 31 March 2015	**(33,308)**	**(2,337)**	**0**	**(56,882)**	**(350)**	**(11,400)**	**(45,963)**	**(1)**	**(1,452)**	**(151,693)**

	Other land and buildings at fair value £000s	Buildings under finance lease at fair value £000s	Assets under construction at cost £000s	Vehicles, plant and equipment at cost £000s	Equipment under finance lease at cost £000s	Council dwellings at fair value £000s	Infrastructure at cost £000s	Community assets at cost £000s	Surplus assets £000s	**Total** £000s
Net Book Value at 31/03/2014	**422,535**	**0**	**1,303**	**17,118**	**0**	**630,684**	**111,245**	**4,939**	**48,665**	**1,236,489**
Net Book Value at 31/03/2015	**414,888**	**56,196**	**2,537**	**16,041**	**0**	**621,911**	**118,801**	**4,802**	**48,490**	**1,283,666**

Note 17 continued…

Revaluations

Valuations are carried using a rolling programme, with 20% of assets valued each year. This provides a full revaluation every five years, in line with Code of Practice requirements. In addition, HRA dwellings, the Civic Centre, Sage Gateshead and BALTIC Centre for Contemporary Art are valued annually. Valuations are summarised in the table below:

	Land and Buildings £000s	Council Dwellings £000s	Surplus Assets £000s	**Total Valuation £000s**
Assets valued 1 April 2014	283,751	633,311	370	**917,432**
Assets valued 1 April 2013	192,570	630,684	5,183	**828,437**
Assets valued 1 April 2012	166,547	683,745	2,275	**852,567**
Assets valued 1 April 2011	249,140	677,000	33,911	**960,051**
Assets valued 1 April 2010	239,732	747,000	725	**987,457**

Note that the Comprehensive Income and Expenditure Statement (CIES) includes (£26.877m) relating to the surplus / deficit on asset revaluations. These are items that do not go through the surplus / deficit on provision of service; rather, they are charged to *Other Comprehensive Income and Expenditure* and reversed in the Movement in Reserves Statement. In addition, the CIES (within *Cost of Services*) also includes (£2.185m) relating to in-year reversals of previous revaluation losses within *Other Land and Buildings* and (£4.880m) relating to in-year reversals of previous revaluation losses within *Council Dwellings*.

18. Heritage assets

Accounting policy: The Council holds a number of heritage assets to increase the knowledge, understanding and appreciation of the Council's history and local area. Heritage assets are recognised and measured in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below.

The Council maintains a register for all heritage assets which records the nature, cost, valuation and current locations of each asset. Heritage assets are classified into three categories:

- **Civic Regalia:** These items are reported in the Balance Sheet at insurance valuation which is based on market values and is reviewed annually. The collection is relatively static and acquisitions and donations are rare. Where they do occur they are initially recognised at cost and donations are recognised at valuation with reference to appropriate commercial markets.
- **Museum Collections:** Any items over £10,000 are reported in the Balance Sheet at insurance valuation (2012/13 valuation, reviewed in 2014/15) which is based on market values and is reviewed annually. Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation with reference to appropriate commercial markets for the paintings using the most relevant and recent information from sales at auctions.
- **Public Artwork:** Any items over £10,000 are reported in the Balance Sheet (2012/13 valuation, reviewed in 2014/15) for any significant items where possible, or by valuations provided by the Council's Public Art Curator, which are informed by commercial markets and the estimated replacement cost. Acquisitions are made by purchase or donation. Purchases are initially recognised at cost and donations are recognised at valuation with reference to appropriate commercial markets.

Note 18 continued…

The items within each collection are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

Where a valuation cannot be provided at a cost that is commensurate with the benefits to users of the financial statements, the Council will use insurance valuations, acquisition costs or replacement cost estimates provided by the Public Arts Curator.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment such as where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment.

The disposal of heritage assets is rare, but will be accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the Notes and are accounted for in accordance with statutory accounting requirements relating to capital receipts.

Note information: the Council has identified a total of 374 heritage assets, held to increase the knowledge, understanding and appreciation of the Council's history and local area. These have been split into three distinct categories as follows:

- **Civic Regalia:** the collection includes a number of artefacts such as the Mayoral chains, the Mace and various items of silverware.
- **Museum Collections:** the museum collections include paintings (both oil and watercolour), sculptures and other artefacts and are managed by Tyne and Wear Archives and Museums on behalf of the Council. The collection includes two paintings by Hans Schäufelein valued at £1.7m on display at the Shipley Art Gallery[16]; a full list of exhibition listings and the Tyne and Wear Museums' access policy is available on their website.
- **Public Artwork:** the collection includes a number of sculptures on display throughout Gateshead, including the Angel of the North.

The table below sets out the value of the Council's heritage assets that have been recognised on the Council's Balance Sheet:

	Public art £000s	Civic regalia £000s	Museum collections £000s	Total £000s
Cost or Valuation 2013/14:				
1 April 2013	6,752	306	13,848	20,906
Additions	49	0	14	63
Disposals	(40)	0	0	(40)
31 March 2014	**6,761**	**306**	**13,862**	**20,929**
Cost or Valuation 2014/15:				
1 April 2014	6,761	306	13,862	20,929
Reclassifications	272	0	0	272
Additions	5	0	308	313
Upward Revaluations	0	0	25	25
31 March 2015	**7,038**	**306**	**14,195**	**21,539**

[16] http://www.twmuseums.org.uk/shipley-art-gallery.html

19. Capital commitments and capital financing

Redemption of debt: accounting policy

The Council is required by statute to set aside a minimum revenue provision (MRP; *see also Note 6a*), for the repayment of debt for General Fund services. Provision is made for principal repayments by charging a MRP calculated in accordance with CIPFA's Prudential Code (which follows the provisions of the Local Government Act 2003[17]).

Capital commitments

At 31 March 2015, the Council had £10.3m of outstanding (budgeted) capital commitments for the construction or enhancement of property, plant and equipment. Similar commitments as at 31 March 2014 amounted to £14.3m. These relate to the completion of the following schemes:

- Investment in solar PV infrastructure £5.9m
- Investment in providing capital loans for affordable housing £3.4m
- Investment in broadband infrastructure £0.8m
- Investment in transport infrastructure £0.2m

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue for assets used by the Council, the expenditure results in an increase in the capital financing requirement (CFR, a measure of the capital expenditure incurred historically by the Council that has yet to be financed):

2013/14 £000s		2014/15 £000s
642,722	**Opening Capital Financing Requirement**	**644,254**
	Capital investment	
54,112	Property, Plant and Equipment	55,295
49	Heritage Assets	312
1,274	Intangible Assets	443
10	Assets Held for Sale	60
4,754	Revenue Expenditure Funded from Capital under Statute	5,690
0	Long Term Debtors relating to Capital transactions	1,700
0	Acquisition of PFI Assets	50,288
	Sources of finance	
(5,172)	Capital receipts	(3,323)
(38,996)	Government grants and other contributions	(38,278)
	Sums set aside from revenue:	
(736)	Direct revenue contributions	(1,770)
(13,763)	MRP/loans fund principal	(15,862)
644,254	**Closing Capital Financing Requirement**	**698,809**
	Explanation of movements in year:	
(5,797)	Increase/(decrease) in underlying need to borrowing (supported by government financial assistance)	(5,567)
7,944	Increase in underlying need to borrowing (unsupported by government financial assistance)	12,558
(615)	Assets acquired under PFI/PPP contracts	47,564
1,532	**Increase/(decrease) in Capital Financing Requirement**	**54,555**

[17] See http://www.legislation.gov.uk/ukpga/2003/26/contents

20. Public finance initiative (PFI) arrangements

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

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operator each year are analysed into the following elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the *Financing and Investment Income and Expenditure* line in the Comprehensive Income and Expenditure Statement;
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement; and
- the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).

PFI Schemes in place

Schools PFI

In February 2006, the Council entered into a contract with Pinnacle Schools (Gateshead) Limited (PSG) to design, build, finance and operate seven new schools in Gateshead. The schools were completed during 2007 and 2008. PSG will manage and maintain these until 2033. The schools are provided under the PFI scheme. As such, they benefit from government grants for the period of the contract (£65m).

PSG are paid by the Council using a formula within the contract. Payments consist of a fixed element and an index-linked (RPIX) element which form a monthly “unitary charge”, covering the construction, financing and running costs of the schools. However, actual payments to PSG may vary due to the company’s performance, contract variations and additional works.

The PFI contract includes two schools not included on the Balance Sheet: one was built on behalf of the Diocese of Hexham and Newcastle and one is now an academy.

Waste PFI

The South Tyne and Wear Waste Management Partnership was established to enable the three partner authorities (Gateshead, Sunderland and South Tyneside Councils) to jointly procure a service for the treatment and disposal of residual municipal waste.

In April 2011, the Partnership, led by Gateshead Council, signed a £727m PFI contract with a consortium led by SITA UK. The Partnership was awarded £73.5m of Waste Infrastructure Credits following receipt of the final business case for the project. Gateshead Council is expected to utilise approximately 20% of the total capacity of the facility each year, resulting in estimated unitary charge payments of £236m over the duration of the contract including indexation.

The contract is focused on the development of an energy from waste facility on Teesside which will treat approximately 190,000 tonnes of residual waste generated by the three councils each year until the expiry date in March 2039.

Note 20 continued…

Service commencement was achieved on 22 April 2014 following independent certification of the energy from waste facility, meaning that the unitary charge associated with using the asset will become payable from the 2014/15 financial year and is based upon the volumes of waste provided by each council.

a) Analysis of movements in PFI asset values

31/03/14 £000s			31/03/15 £000s	
Schools	Waste		Schools	Waste
22,053	**0**	**Opening values**	**21,656**	**0**
49	0	Additions	71	57,372
0	0	Downward revaluations	0	3,439
(446)	0	Depreciation	(448)	(2,410)
21,656	**0**	**Closing values**	**21,279**	**58,401**

b) Analysis of movements in PFI liabilities

The following transactions were processed during 2014/15:

31/03/14 £000s			31/03/15 £000s	
Schools	Waste		Schools	Waste
1,295	0	Services	1,340	3,936
0	0	Lifecycle	0	388
615	0	Capital Repayment	656	9,152
1,750	0	Interest	1,709	1,035
884	0	Contingent Rent	952	117
4,544	**0**	**Total Payment**	**4,657**	**14,628**
(5,057)	(1,805)	PFI grant income receivable	(5,057)	(1,805)
2,167	0	Grant attributable to academy / diocesan schools	2,167	0
1,654	**(1,805)**	**Net Payment**	**1,767**	**12,823**

The estimated value of outstanding contractual Balance Sheet liabilities (the capital element of unitary charge payments still to be made) is analysed below:

31/03/14 £000s			31/03/15 £000s	
Schools	Waste		Schools	Waste
(26,423)	**0**	**Opening values**	**(25,808)**	**0**
0	0	Additions	0	57,372
615	0	Repayment of capital	656	(9,152)
(25,808)	**0**	**Closing values**	**(25,152)**	**48,220**

c) Analysis of unitary charge payments outstanding

The estimated value of outstanding unitary charge payments (at current prices) is analysed below:

Note 20 continued…

	Repayment of Liability		Interest Payment		Service Charges		Total
	Schools £000s	Waste £000s	Schools £000s	Waste £000s	Schools £000s	Waste £000s	£000s
– within 1 year	699	2,410	1,666	993	2,161	3,898	**11,827**
– within 2-5 years	3,293	8,342	6,167	3,499	9,022	17,120	**47,443**
– within 6-10 years	5,501	9,667	6,324	3,441	12,200	22,962	**60,095**
– within 11-15 years	7,580	8,910	4,245	2,507	13,349	24,776	**61,367**
– within 16-20 years	8,080	9,724	1,380	1,541	9,375	25,209	**55,309**
– within 21-25 years	0	9,167	0	491	0	19,714	**29,372**
	25,153	**48,220**	**19,783**	**12,472**	**46,107**	**113,679**	**265,413**

Note that the value of contingent rents (rents that are not fixed – in this case, those due to a general increase in prices[18]) within the arrangement were as follows:

	Schools £000s	Waste £000s
2013/14 value	**884**	**0**
2014/15 value	**952**	**117**

d) Significant contractual information

Significant terms of the arrangement

Schools

Market testing: from 1 April 2013 onwards, five-yearly market testing exercises must be carried out by an independent third party on behalf of PSG. Should the service costs (grounds maintenance, cleaning, waste management and pest control) change by 5% or more, the unitary charge must be adjusted accordingly.

Pension liability: an adjustment is required for any changes in employer pension contributions from an agreed percentage of employees' pay.

Refinancing gains: should PSG choose to refinance its debts (subject to the Council's consent), the Council is entitled to a 50% share of any gains.

Waste

Refinancing gains: should SITA choose to refinance its debts (subject to the Council's consent), the Council is entitled to a share of any gains of between 50%-70% depending upon the value.

Market testing: from Service commencement, air pollution control residue (APCR) disposal and haulage costs are subject to market testing and benchmarking exercise every five years and the unitary charge must be adjusted accordingly.

Rights to use specified assets

Schools

The Council has full rights to use the schools for the provision of educational services. However, a fee is payable to PSG for use outside normal hours (for example, community use).

[18] The Schools PFI contract is inflated annually by RPIx, the retail price index excluding mortgage payments

Note 20 continued…

Waste

The Council has full rights to use the assets within the Contract for the treatment of residual municipal waste up to the maximum tonnage level set out within the Contract. An additional fee is payable to SITA South Tyne and Wear for the use of the Waste Transfer Station or the Education and Visitor Centre outside normal operating hours.

Rights to expect provision of services

Schools

The Council has rights to expect the provision of managed facilities management (FM) services for the duration of the contract.

Waste

The Council has rights to expect the provision of residual waste treatment services for the duration of the contract.

Rights to receive specified assets at the end of the concession period

Schools

The schools are under the operational control of PSG during the contract, with legal title to the land remaining with the Council throughout the contract. Any equipment procured by PSG for the operation of the schools will be transferred to the Council at the end of the contract period.

There are a number of agreements between the Council and the Diocese around the shared Highfield / St Joseph's site. They ensure that the Diocese has the right to use their half of the site indefinitely following hand back, along with rights to use shared areas for the duration of the contract.

The conversion of Lord Lawson to an academy during 2011/12 resulted in an additional agreement between the Council and the school, similar to the one above. All relevant assets and liabilities have been transferred to the academy (which is a separate legal entity) without the need for changes to the PFI Agreement between PSG and the Council (i.e. the Council remains responsible for the Agreement but all costs are fully recovered).

Waste

The energy from waste facility and waste transfer station is under the operational control of SITA South Tyne and Wear during the contract. The Council retains legal title to the land relating to the Waste Transfer Station and the asset will revert to the Council at the end of the contract period.

The Energy from Waste facility is constructed on land owned by SITA. At the end of the contract there are a number of options around the asset whereby the agreement could be extended or the asset would revert to the Council to operate along with a lease of the underlying land.

Renewal and termination options

Schools

The contract does not include an option to extend/renew beyond the contractual expiry date. It allows the Council to terminate the contract on 20 business days' notice, or either party to terminate on the other party's default or in the event of force majeure (for example, war, strike, riot, natural disaster). There are provisions within the contract allowing for compensation to be paid by the defaulting party to the other in the event of termination.

Waste

The contract includes an option to extend for a period of 5 years beyond the contractual expiry date. It allows the Council to terminate the contract with 20 business days' notice or

Note 20 continued…

either party to terminate on the other party's default or in the event of force majeure (for example: war, strike, riot, natural disaster). There are provisions within the contract allowing for compensation to be paid by the defaulting party to the other in the event of termination.

Other rights and obligations

Schools

It is anticipated that any staff employed by PSG or its subcontractors in running the schools will have the legal right to transfer over to the Council at the end of the contract.

Waste

None.

21. Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Due to the risk of lost income from reduced interest earned or the cost of penalties charged for early redemption of fixed-term investments, the Council does not consider fixed-term investments to be highly liquid. Fixed-term investments are shown on the Balance Sheet as either long or short-term investments depending on the remaining term to maturity of the investment.

In the Cash Flow Statement, cash and equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management. The balance of cash and cash equivalents is made up of the following elements:

31/03/14 £000s		31/03/15 £000s
383	Cash held by officers	110
(14,010)	Bank overdraft	(5,008)
21,267	Short-term deposits	40,210
7,640		**35,312**

22. Debtors

These amounts represent sums due from a number of sources, such as other local authorities and government departments. It may also include payments in advance, such as invoices spanning financial periods:

31/03/2014 £000s			31/03/2015 £000s	
Less than 1 year	More than 1 year		Less than 1 year	More than 1 year
10,675	0	Central government bodies	4,803	0
2,211	0	NHS bodies	11,670	0
1,675	0	Other local authorities	8,399	0
2,004	0	Other public bodies	1,276	0
33,475	16,496	Bodies external to general government	29,637	18,016
50,040	**16,496**		**55,785**	**18,016**

Note 22 continued…

The debtors' balance represents the amount due to the Council from customers or grants outstanding from funding bodies. A bad debt provision of £10.955m is held within the b*odies external to general government* category above to provide against the risk of default on debt outstanding from trade, or non-government, debtors (2013/14: £10.560m); the figure has increased by £0.395m following review of required provisions.

23. Creditors

These amounts represent sums owed to a number of sources, such as other local authorities and government departments. It also includes income received in advance, such as council tax relating to 2015/16:

31/03/2014 £000s			31/03/2015 £000s	
Less than 1 year	More than 1 year		Less than 1 year	More than 1 year
(13,370)	0	Central government bodies	(9,523)	0
(4,847)	0	NHS bodies	(5,742)	0
(3,129)	0	Other local authorities	(5,797)	0
(463)	0	Other public bodies	(1,455)	0
(40,307)	(25,355)	Bodies external to general government	(50,524)	(70,590)
(62,116)	**(25,355)**		**(73,041)**	**(70,590)**

24. Provisions and contingent liabilities

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

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

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

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

Movements in provisions during 2014/15 were as follows:

Note 24 continued…

Balance 31/03/14 £000s		Receipts £000s	Payments £000s	New provision £000s	Reversals £000s	Balance 31/03/15 £000s
(1,656)	Business rate appeals - provision for refunds following successful appeals	0	1,132	(1,132)	0	(1,656)
(1,659)	Future redundancies - provision for future costs associated with known redundancies	0	1,659	(4,223)	0	(4,223)
(3,315)	**Short-term provisions**	**0**	**2,791**	**(5,355)**	**0**	**(5,879)**
(32)	Sundry provision	0	2	0	0	(30)
(4,273)	Insurance - provision for costs associated with future insurance claims against the Council	(5,581)	3,344	0	1,045	(5,465)
(4,305)	**Long-term provisions**	**(5,581)**	**3,346**	**0**	**1,045**	**(5,495)**
(7,620)	**Total provisions**	**(5,581)**	**6,137**	**(5,355)**	**1,045**	**(11,374)**

Contingent liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. They also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet, with disclosure in this note only. The Council's significant contingent liabilities are as follows:

Repairs and maintenance contracts: from 1 April 2012, the Council's repairs and maintenance contract is delivered by the Mears Group. Currently, the exit liability with Mears is that the Council will assume responsibility for any deficit attributable to those matters outside Mears' control, such as pension fund under-performance or a change in actuarial assumptions. Mears are responsible for costs within their control, such as paying salaries above the growth assumption determined by the Tyne and Wear Pension Fund, and payment of benefits due to flexible or early retirement. The value of this liability is currently unknown.

Pensions: on 23 June 2011, the Council agreed to act, in conjunction with the other Tyne and Wear councils, as guarantor to the following organisations in respect of their liability to the Tyne and Wear Pension Fund in the event of their failure:

- North East Regional Employers Organisation: which serves and represents regional councils in relation to human resource management and employee relations;
- Disability North: a charity which promotes social inclusion, independence and choice for disabled people; and
- The Percy Hedley Foundation: a charity providing specialist services for the disabled.

The Council has agreed with the Tyne and Wear Pension Fund that, in the event of these organisations failing in the future, any deficits in their pension funds will be repaid over a long-term period. The Council will be liable for 17.25% of any liabilities.

Baltic Business Quarter: the Council's agreement with Terrace Hill, the Council's development partner in the Quarter, came to an end in 2014/15. Under the agreement's terms, there may be amounts owed to Terrace Hill. Potential liabilities have yet to be agreed; as such, no estimate can currently be made.

25. Employee benefits

Post-employment benefits (pensions)

As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits. These provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council.

Employees of the Council are members of two main pension schemes:

a. Defined contribution plan: Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, which is administered by the Teachers' Pensions Agency (TPA)[19]. It provides teachers with defined benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of member's pensionable salaries.

The TPA uses a notional fund as the basis for calculating the employers' contribution rate paid by each authority. As such, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees.

The arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the *education service* line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to teachers' pensions in the year.

In 2014/15, the Council paid £5.512m to the TPA in respect of teachers' retirement benefits, representing 9.4% of pensionable pay (the figures for 2013/14 were £6.013m and 10.1%). In addition, the Council is responsible for all pension payments relating to added years it has awarded, together with related increases. In 2014/15, these amounted to £3.619m, representing 6.2% of pensionable pay (£3.587m and 6.0% in 2013/14).

c. Defined benefit plan: Tyne and Wear Pension Fund

The Tyne and Wear Pension Fund[20], part of the Local Government Pension Scheme, is administered by South Tyneside Council. This is a funded, defined benefit final salary scheme, meaning that the Council and employees pay contributions into the fund calculated at a level estimated to balance the liabilities with investment assets:

The liabilities of the Tyne and Wear Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates and employee turnover rates, and projections of future earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate.
- The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:
    - securities - current bid price or professional estimate
    - property - market value

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
    - current service cost
    - past service cost
    - net interest on the net defined benefit liability / asset

[19] See www.teacherspensions.co.uk/
[20] See www.twpf.info

Note 25 continued…

- Remeasurements comprising:
  - return on plan assets
  - actuarial gains and losses
- Contributions paid to the pension fund

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows (rather than as benefits are earned by employees).

In 2014/15, the Council paid £30.397m (£28.937m in 2013/14) to the Pension Fund in respect of pension contributions, representing 15.7% of pensionable pay (14.7% in 2013/14) and early retirement strain on the fund payments.

The scheme is accrued in accordance with the requirements of International Accounting Standard 19 *Employee Benefits*[21] (IAS 19). This accounts for retirement benefits when they are committed to be given, even if the actual giving is many years into the future. IAS 19 also requires the inclusion of the Council's attributable share of the fund's assets and liabilities. Further information on the Tyne and Wear Pension Fund can be found in their Annual Report. This is available upon request from South Tyneside Council.

Transactions relating to retirement benefits

The Council recognises the cost of retirement benefits in the *Cost of Services* when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge made against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund balance via the Movement in Reserves Statement during the year:

Charges to the Comprehensive Income & Expenditure Statement				
	Funded Liabilities		Unfunded Liabilities	
	31/03/14 £m	31/03/15 £m	31/03/14 £m	31/03/15 £m
Comprehensive Income & Expenditure Statement (CIES)				
Cost of Services:				
Current service cost	27.32	22.24	0.00	0.00
Past service cost (including curtailments)	1.54	0.80	7.32	0.57
Settlement cost	0.00	(2.02)	0.00	0.00
Financing and Investment Income and Expenditure:				
Interest on net defined benefit liability/(asset)	19.31	14.98	3.86	3.94
Pension expense charged to *Surplus/Deficit on Provision of Services*	**48.17**	**36.00**	**11.18**	**4.51**

[21] See www.ifrs.org/Documents/IAS19.pdf

Note 25 continued…

	Funded Liabilities		Unfunded Liabilities	
	31/03/14	31/03/15	31/03/14	31/03/15
continued…	£m	£m	£m	£m
Pension expense charged to *Other Comprehensive Income and Expenditure*:				
Remeasurement of the net defined benefit liability:				
- Return on plan assets	13.23	(59.69)	0.00	0.00
- Actuarial (gains)/losses due to:				
• changes in financial assumptions	(76.97)	114.83	(5.40)	7.49
• changes in demographic assumptions	(9.93)	0.00	2.72	0.00
• liability experience	(37.53)	(7.02)	0.09	(0.94)
Total amount charged to *Other Comprehensive Income and Expenditure*	**(111.20)**	**48.12**	**(2.59)**	**6.55**
Total amount recognised charged to the CIES	**(63.03)**	**84.12**	**8.59**	**11.06**

The total amount charged to *Other Comprehensive Income and Expenditure* (funded and unfunded) totalled £54.670m, as disclosed in the Comprehensive Income and Expenditure Statement; the cumulative actuarial loss recognised to 31 March 2015 was £391.88m.

Movement in Reserves charges				
	Funded Liabilities		Unfunded Liabilities	
	31/03/14 £m	31/03/15 £m	31/03/14 £m	31/03/15 £m
Movement in Reserves Statement				
Net charges made for retirement benefits in accordance with the Code	21.26	7.65	5.57	(1.16)
Actual amount charged against the General Fund balance for pension in the year				
Employer contributions payable to the scheme	26.91	28.35		
Retirement benefits payable to pensioners			5.61	5.67

Assets and liabilities in relation to retirement benefits

Reconcilation of the present value of Fund liabilities (defined benefit obligation)				
	Funded Liabilities		Unfunded Liabilities	
	2013/14 £m	2014/15 £m	2013/14 £m	2014/15 £m
Opening defined benefit obligation at 1 April	**1,188.04**	**1,115.35**	**93.19**	**96.17**
Current service cost	27.32	22.24	0.00	0.00
Interest expense on defined benefit obligation	51.65	47.35	3.86	3.94
Contributions from employees (Fund participants)	6.69	6.75	0.00	0.00
Remeasurement (gains) and losses:				
Actuarial (gains)/losses on liabilities:				
• financial assumptions	(76.97)	114.83	(5.40)	7.49
• demographic assumptions	(9.93)	0.00	2.72	0.00
• experience	(37.53)	(7.02)	0.09	(0.94)
Net benefits paid out	(35.46)	(35.70)	(5.61)	(5.67)
Past service cost (including curtailments)	1.54	0.80	7.32	0.57
Settlements (liabilities extinguished)	0.00	(5.27)	0.00	0.00
Closing defined benefit obligation at 31 March	**1,115.35**	**1,259.33**	**96.17**	**101.56**

Note 25 continued…

Reconciliation of fair value of the scheme assets:

Reconciliation of the movements in the fair value of Fund assets	Funded Liabilities		Unfunded Liabilities	
	2013/14 £m	2014/15 £m	2013/14 £m	2014/15 £m
Opening fair value of Fund assets	**735.67**	**752.92**	**0.00**	**0.00**
Interest income on assets	32.34	32.37	0.00	0.00
Re-measurement gains and (losses) on assets	(13.23)	59.69	0.00	0.00
Employer contributions	26.91	28.35	5.61	5.67
Employee contributions	6.69	6.75	0.00	0.00
Net benefits paid out	(35.46)	(35.70)	(5.61)	(5.67)
Settlements	0.00	(3.25)	0.00	0.00
Closing fair value of Fund assets	**752.92**	**841.13**	**0.00**	**0.00**

The actual return on scheme assets in the year was a gain of £92.06m: £59.69m return on assets plus £32.37m interest income on assets (£19.11m gain in 2013/14).

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

Asset allocation	31/03/14	31/03/15		
	Total	Quoted	Unquoted	Total
Equity investments	66.8%	58.2%	8.2%	66.4%
Property	8.5%	0.0%	9.5%	9.5%
Government bonds	3.5%	3.7%	0.0%	3.7%
Corporate bonds	11.5%	11.7%	0.0%	11.7%
Cash	2.9%	2.4%	0.0%	2.4%
Other assets	6.8%	4.2%	2.1%	6.3%
	100.0%	**80.2%**	**19.8%**	**100.0%**

Scheme history of gains and losses

The liabilities below show the underlying commitment that the Council has to pay retirement benefits. The total liability has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, decreasing the overall balance as shown below. Statutory regulations for funding the deficit mean that the financial position of the Council remains healthy, as the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary:

Pension assets and liabilities recognised in the Balance Sheet	2013/14 £m	2014/15 £m
Funded:		
Fair value of Fund assets	752.92	841.13
Present value of the funded defined benefit obligation	(1,115.35)	(1,259.33)
	(362.43)	(418.20)
Unfunded:		
Present value of the unfunded defined benefit obligation	(96.17)	(101.56)
Asset / (liability) recognised on Balance Sheet	**(458.60)**	**(519.76)**

Note 25 continued…

Expected future contributions

The expected contributions to be made to the Tyne and Wear Pension Fund by the Council for the accounting period to 31 March 2016 are estimated to be £27.89m. In addition, strain on the fund contributions may be required. It is also expected that the Council will pay £5.74m directly to beneficiaries.

The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows:

Active members	37%
Deferred pensioners	11%
Pensioners	52%

Actuarial assumptions

Liabilities have been assessed on an actuarial basis using the projection unit method, an estimate of the pensions that will be payable in future years is dependent on assumptions such as mortality rates and salary levels. Aon Hewitt Limited, an independent firm of actuaries, has valued the Tyne and Wear Pension Fund's assets and liabilities in accordance with IAS 19 based upon the latest actuarial valuation of the fund as at 31 March 2013.

A building block approach is employed in determining the rate of return on fund assets. Historic markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out in the assumption table below. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the fund at 31 March 2015:

Principal assumptions

	Funded Liabilities		Unfunded Liabilities	
	13/14	**14/15**	**13/14**	**14/15**
Financial assumptions (% per annum)				
Discount rate for Fund liabilities	4.3%	3.2%	4.2%	3.1%
Rate of inflation - RPI	3.4%	2.9%	3.2%	2.9%
Rate of inflation - CPI	2.4%	1.8%	2.2%	1.8%
Rate of increase to pensions in payment	2.4%	1.8%	2.2%	1.8%
Rate of increase to deferred pensions	2.4%	1.8%	N/A	N/A
Rate of general increase in salaries	3.9%	3.3%	N/A	N/A
Mortality assumptions				
Longevity at 65 for current pensioners:				
Men	23.0	23.1	23.0	23.1
Women	24.6	24.7	24.6	24.7
Longevity at 65 for future pensioners (currently aged 45):				
Men	25.0	25.1	N/A	N/A
Women	26.9	27.0	N/A	N/A

Commutation

2014/15 and 2013/14: Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 75% of the permitted maximum.

2012/13: Each member assumed to exchange 75% of the maximum amount permitted of their post 31 March 2010 pension entitlements (50% pre 1 April 2010) for additional lump sum.

Note 25 continued…

The results reported for employee benefits are sensitive to the assumptions used. The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2015 and the projected service cost for the year ending 31 March 2016 is set out below:

Sensitivity analysis		
Funded LGPS benefits		
Discount rate assumption:		
Adjustment to discount rate	**+0.1% p.a.**	**-0.1% p.a.**
Present value of total obligation (£m)	1,236.5	1,282.6
% change in present value of total obligation	-1.8%	1.8%
Projected service cost (£m)	24.83	26.55
Approximate % change in projected service cost	-3.3%	3.4%
Rate of general increase in salaries:		
Adjustment to salary rate increase	**+0.1% p.a.**	**-0.1% p.a.**
Present value of total obligation (£m)	1,266.3	1,252.5
% change in present value of total obligation	0.6%	-0.5%
Projected service cost (£m)	25.68	25.68
Approximate % change in projected service cost	0.0%	0.0%
Rate of increase to pensions in payment and deferred pensions assumption and rate of revaluation of pension accounts:		
Adjustment to pension increase rate	**+0.1% p.a.**	**-0.1% p.a.**
Present value of total obligation (£m)	1,276.3	1,242.6
% change in present value of total obligation	1.3%	-1.3%
Projected service cost (£m)	26.55	24.83
Approximate % change in projected service cost	3.4%	-3.3%
Post retirement mortality assumption:		
Adjustment to mortality age rating assumption*	**- 1 year**	**+ 1 year**
Present value of total obligation (£m)	1,293.8	1,224.8
% change in present value of total obligation	2.7%	-2.7%
Projected service cost (£m)	26.57	24.79
Approximate % change in projected service cost	3.5%	-3.5%

*A rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them

d. Discretionary benefits

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

26. Financial instruments

a. Accounting policies

Financial assets

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For loans that the Council has made, this means that the amount

Note 26 continued…

presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

The Council has made a small number of loans to organisations at less than market rates for policy reasons rather than as financial instruments and these loans may be interest free or at rates below prevailing market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund balance is the interest receivable for the financial year – the reconciliation of the amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund balance is managed by a transfer to or from the Financial Instrument Adjustment Account in the Movement in Reserves Statement.

The Council has set a de-minimis level of £100,000; loans with a value below this amount are measured at cost.

Any gains and losses that arise on de-recognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

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

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

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

Changes in the fair value are balanced by an entry in the available-for-sale reserve and the gain / loss is recognised in the Comprehensive Income and Expenditure Statement.

Any gains or losses that arise on de-recognition of an asset are credited / debited to the Comprehensive Income and Expenditure Statement, along with any accumulated gains / losses, managed by a transfer to or from the Financial Instrument Adjustment Account in the Movement in Reserves Statement. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Financial liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowing that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Note 26 continued…

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

There are no transaction costs associated with financial liabilities held on the Council's Balance Sheet.

Fair value

For each class of financial asset and financial liability, the Council is required to disclose the fair value of that class of asset and liability in a way that permits it to be compared to its carrying amount. The Council assesses the fair value by calculating the present value of the cash flows that take place over the remaining life of the instruments, using a number of assumptions detailed in Note 26e.

Fair values have not been calculated for assets or liabilities where the carrying amount is a reasonable approximation of fair value, such as trade creditors and debtors.

External interest

Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

b. Nature and extent of risk arising from financial instruments

Key risks: the Council's borrowing and investment activities expose it to a variety of financial risks, the key risks being:

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

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

- by formally adopting the requirements of the Code;
- by the adoption of a Treasury Policy Statement;
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investments counterparties in compliance with government guidance; and
- by approving annually in advance prudential indicators for the following three years limiting:
  - the Council's overall borrowing;
  - its maximum and minimum exposure to fixed and variable rates;

Note 26 continued…

- its maximum and minimum exposures within the maturity structures of its debt; and
- its maximum annual exposures to investments maturing beyond a year.

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

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

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

Credit risk: Credit risk arises from deposits with banks, building societies, other local authorities and the government's Debt Management Office[22], as well as credit exposures to the Council's customers. This risk is minimised through the annual investment strategy, which requires that deposits are not placed with financial institutions that fail to meet the agreed minimum credit criteria. The annual investment strategy also stipulates the maximum amount and time limits in respect of each financial institution.

The table below shows the gross amounts due to the Council from its financial assets, and the amounts which have been impaired due to likely non-receipt. The net carrying value represents the maximum credit risk to which the Council is exposed:

Gross amounts due to the Council from financial assets				
2013/14 Net value £m		2014/15 Gross value £m	2014/15 Impairment value £m	2014/15 Net value £m
56.242	Deposits with financial institutions	91.393	(0.137)	91.256
16.496	Long-term debtors	18.016	0.000	18.016
36.659	Short-term debtors	50.158	(7.336)	42.822

The debtors' balance represents the amount due to the Council from customers (excluding council tax and business rates arrears and amounts owed by HMRC). A bad debt provision of £7.336m (excluding council tax and business rates) is held on the Balance Sheet to provide against the risk of default on debt outstanding (£6.732m in 2013/14).

In addition, the Council's Balance Sheet at 31 March 2015 held £67.244m (short-term) and £70.590m (long-term) relating to gross amounts owed for financial liabilities (£56.313m short-term and £25.355m long-term in 2013/14), representing amounts owed to customers (excluding HMRC, council tax and business rates). No impairment was required to this figure.

The following table summarises the Council's maximum exposure to credit risk on financial assets. This analysis is based on credit rating advice received by the Council's treasury advisors, Capita Asset Services, and focuses on the long-term investment grade rating issued to each financial institution by Fitch. The highest possible rating is AAA and the lowest rating is BBB:

[22] See http://www.dmo.gov.uk/

Note 26 continued…

Spread of credit risk		
2013/14 £m	**Rating**	**2014/15 £m**
46.242	AAA	51.256
5.000	AA-	30.000
0.000	A+	0.000
5.000	A	10.000
56.242	**Total (excluding impaired investments)**	**91.256**

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

The Council has ready access to borrowing from the money markets to cover any day-to-day cash flow need, and the Public Work Loans Board (PWLB) and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992[23], which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments.

At 31 March 2015, all of the Council's deposits were due to mature within 364 days.

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

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

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

The maturity profile of the Council's financial liabilities is shown below:

Maturity profile				
Maturity Period	**Approved limits %**	**31/03/2014 %**	**Approved limits %**	**31/03/2015 %**
< 1 year	20	12.26	20	10.13
1 – 2 years	20	7.21	20	7.29
2 – 5 years	60	21.33	60	21.32
5 – 10 years	60	15.36	60	11.91
+ 10 years	90	43.84	90	49.35

[23] See http://www.legislation.gov.uk/ukpga/1992/14/contents

Note 26 continued…

Market risk

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

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowing will not impact in the Comprehensive Income and Expenditure Statement.

However, changes in interest payable and receivable on variable rate borrowing and investments will affect the General Fund balance.

An example of the impact of a change in interest rates is calculated in the risk assessment shown below. The assessment has been carried out assuming a 1% increase in interest rates (with all other variables such as principal and maturity periods being held constant). The increase in interest rates will only affect the rate applied to variable rate borrowing and investments. The results of this assessment are shown in the following table:

Interest rate sensitivity analysis		
2013/14 £m		**2014/15 £m**
0.234	Increase in interest payable on variable rate borrowing	0.373
(0.352)	Increase in interest receivable on variable rate investments	(0.309)
(0.118)	**Impact on the (surplus)/deficit**	**0.064**
0.000	Share of overall impact to the HRA	0.000
(0.040)	Decrease in fair value of fixed rate investments	(0.119)
67.649	Decrease in the fair value of fixed rate borrowing	100.215

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

The risk of interest rate loss is partially mitigated by the fact that a proportion of government grants payable on financing costs will normally move with prevailing interest rates of the Council's cost of borrowing and therefore provide 'compensation' for a proportion of any higher costs.

Price risk: the Council does not generally invest in equity shares but does have shareholdings to the value of £11.583m in Newcastle International Airport, which is not on the stock market. The Council is consequently only exposed to losses arising from movements in the price of these shares if a revaluation of the company showed a fall in its overall valuation.

Foreign exchange risk: the Council has no financial assets or liabilities denominated in foreign currencies. It has no exposure to loss arising from exchange rates movements.

Note 26 continued…

c. Financial instrument balances

The borrowings and investments disclosed in the Balance Sheet were made up of the following categories of financial instruments, analysed into long-term and short-term:

Financial instrument balances				
	Short-term		Long-term	
	31/3/14 £000s	31/3/15 £000s	31/3/14 £000s	31/3/15 £000s
Financial Liabilities at amortised cost	(76,563)	(67,729)	(503,685)	(544,319)
Total Borrowing	**(76,563)**	**(67,729)**	**(503,685)**	**(544,319)**
Loans and Receivables	56,303	92,260		
Available-for-Sale Assets			5	
Unquoted equity investment	0	0	11,583	12,077
Total Investments	**56,303**	**92,260**	**11,588**	**12,077**

Analysis of financial liabilities at amortised cost

Analysis of financial liabilities at amortised cost			
Total outstanding at 31 March 2014 £000s		**Interest rates payable**	**Total outstanding at 31 March 2015 £000s**
	Source of Loan		
(449,355)	Public Works Loans Board	2.37% - 13.75%	(486,158)
(130,893)	Other Loan Instruments	1.05% - 4.52%	(125,890)
(580,248)	**Total Financial Liabilities at Amortised Cost**		**(612,048)**
	An analysis of loan by maturity is:		
(76,563)	**Short-Term Borrowing**		**(67,729)**
(41,366)	Maturing in 1 – 2 years		(44,130)
(122,452)	Maturing in 2 – 5 years		(129,151)
(88,200)	Maturing in 5 – 10 years		(72,137)
(251,667)	Maturing in more than 10 years		(298,901)
(503,685)	**Long-Term Borrowing**		**(544,319)**
(580,248)	**Total Borrowing**		**(612,048)**

d. Financial instruments gains and losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments were made up as follows:

Financial instrument gains and losses		
2013/14 £000s		**2014/15 £000s**
(2,010)	Interest and investment income	(1,516)
27,565	Interest payable and similar charges	26,979
25,555	**Total**	**25,463**

Note 26 continued…

e. Fair value of assets and liabilities carried at amortised cost

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

- the new borrowing rates from the PWLB have been applied to provide the fair value of PWLB debts to ensure that the rate used to calculate fair value is a rate currently available from a comparable lender for the same loan;
- for market loans the prevailing rate of a similar instrument with a published market rate has been used, where this was unavailable the assumption above has been applied;
- for loans receivable prevailing benchmark market rates have been used to provide the fair value;
- the fair value of trade and other receivables is taken to be the invoiced or billed amount;
- amounts relating to investments in Icelandic banks have been removed from the carrying amounts of total loans and receivables; and
- a consistent approach has been applied to assets and liabilities.

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

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

Fair value of assets and liabilities carried at amortised cost				
	31 March 2014		31 March 2015	
	Carrying Amount £000s	Fair Value £000s	Carrying Amount £000s	Fair Value £000s
PWLB Debt	(449,355)	(484,126)	(486,158)	(593,047)
Non-PWLB Debt	(130,893)	(121,132)	(125,890)	(150,593)
Total Financial Liabilities	**(580,248)**	**(605,258)**	**(612,048)**	**(743,640)**
Market Loans < 1 year	35,036	35,049	52,050	52,073
Market Loans > 1 year	0	0	0	0
Total Financial Assets	**35,036**	**35,049**	**52,050**	**52,073**

Note 26 continued…

The following table reconciles the figures used in this note (see above) to the values disclosed within the Balance Sheet (see also Note 21):

Reconciliation of Balance Sheet Items				
	Principal £000s	Impairment £000s	Accrued Interest £000s	Total £000s
Short term investments 2014/15:				
Fixed-term deposits	52,000	0	50	52,050
Impaired investment	137	(137)	0	0
	52,137	**(137)**	**50**	**52,050**
Short term deposits (cash equivalents)	40,183	0	27	40,210
Total	**92,320**	**(137)**	**77**	**92,260**
Short term investments 2013/14:				
Fixed-term deposits	35,000	0	36	35,036
Impaired investment	137	(137)	0	0
	35,137	**(137)**	**36**	**35,036**
Short term deposits (cash equivalents)	21,242	0	25	21,267
Total	**56,379**	**(137)**	**61**	**56,303**

27. Authorisation of Accounts for issue

The Council's Statement of Accounts for the financial year ended 31 March 2015 was approved by the Accounts Committee and authorised for issue on 25 September 2015.

Signed:

Date:

Darren Collins
Strategic Director, Corporate Resources

Signed:

Date:

Councillor Mick Henry
Leader of the Council and Chair of the Accounts Committee

Part 3: Supplementary Statements

Housing Revenue Account (HRA)

HRA Income and Expenditure Statement

2013/14 £000s		2014/15 £000s	Note
	Expenditure:		
18,803	Repairs and maintenance	17,660	
16,553	Supervision and management	15,718	
4,363	Special services	4,520	
2,935	Rents, rates, taxes and other charges	3,099	
54,675	Depreciation and downward revaluation of non-current assets	28,311	5 & 6
335	Debt management charges	335	
358	Increased provision for bad or doubtful debts	520	
98,022		**70,163**	
	Income:		
(74,383)	Dwelling rents (gross)	(75,656)	
(1,417)	Non-dwelling rents (gross)	(1,512)	
(2,736)	Charges for services and facilities	(2,828)	
(252)	Leaseholders charges for services and facilities	(289)	
(939)	Contributions towards expenditure	(985)	
0	HRA subsidy receivable	0	
(79,727)		**(81,270)**	
18,295	**Net Cost of HRA Services as included in the Council's Comprehensive Income and Expenditure Statement**	**(11,107)**	
667	HRA services' share of Corporate and Democratic Core	435	
18,962	**Net Income for HRA Services**	**(10,672)**	
	HRA share of the operating income and expenditure included in the Council's Comprehensive Income and Expenditure Statement:		
(1,265)	(Gain) or loss on sale of HRA non-current assets	(948)	
17,681	Interest payable and similar charges	16,672	
(140)	HRA Interest received and investment income	(97)	
622	Pension interest cost and expected return on pension assets	515	
(839)	Capital grants and contributions	0	
35,021	**(Surplus)/Deficit for the year on HRA services**	**5,470**	

Movement on the HRA Statement

2013/14 £000s		2014/15 £000s	Note
(18,053)	**Balance on the HRA at 1 April 2014**	**(18,008)**	
35,021	(Surplus) / Deficit for the year on HRA Income and Expenditure Statement	5,470	
(34,976)	Adjustments between accounting basis and funding basis under regulations	(7,347)	1
45	Net increase before transfers to reserves	(1,877)	
45	**Increase in year on the HRA**	**(1,877)**	
(18,008)	**Balance on the HRA at 31 March 2015**	**(19,885)**	

Notes to the HRA

1. Adjustments between accounting basis and funding basis under regulations:

2013/14 £000s		2014/15 £000s
	The following transactions relate to entries that have been credited or debited to the HRA Income and Expenditure Statement that are required by statute to be reversed out through the Movement on the HRA Statement so that there is no impact on the HRA Reserve:	
(41,602)	Downward revaluation of non current assets	(16,745)
839	Capital grants and contributions	0
1	Accumulated Absences Account adjustment (IAS19)	1
1,265	Gain/ (loss) on sale of HRA non-current assets	948
(885)	HRA share of contributions to or from the pensions reserve	(607)
(81)	Revenue expenditure funded from capital under statute (REFCUS)	0
5,486	Capital expenditure funded by the HRA	9,044
11,722	Transfer to the Major Repairs Reserve (see Note 7)	11,566
(11,722)	Transfer from the capital adjustment account	(11,566)
(34,977)		(7,359)
	The following relates to entries that have not been credited or debited to the HRA income and expenditure account but are required by statute to be debited to the HRA reserve:	
1	Amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	12
(34,976)	**Total adjustments between accounting basis and funding basis under the legislative framework**	**(7,347)**

2. Housing stock and Balance Sheet valuation

The number of council dwellings by type and valuation at 31 March 2015 was as follows:

01/04/14*	Lettable stock numbers:	31/03/15
11,475	Houses	11,361
5,275	Flats	5,235
3,097	Bungalows	3,096
19,847		**19,692**
£000s	**Values:**	**£000s**
630,684	Council dwellings	621,911
5,615	Other land and buildings	5,429
0	Vehicle, plant, furniture and equipment	65
0	Assets held for sale	0
636,299	**Total Balance Sheet value of land, houses and other property in the HRA**	**627,405**

* It should be noted that opening values are presented prior to any revaluations carried out during 2014/15 and taking effect from 1 April 2014.

3. Vacant possession value

The vacant possession value of the HRA dwellings at 1 April 2014 was £1.624bn. However, the Existing Use Value for Social Housing (EUV-SH) at the same date was £0.633bn. The EUV-SH reflects the valuation for a property if it was sold with sitting tenants paying rents at less than open market rents and tenant's rights including the right to buy.

4. Capital expenditure

A summary of total capital expenditure on land, houses and other property within the HRA during 2014/15, broken down according to the sources of funding was as follows:

2013/14 £000s		2014/15 £000s
	Expenditure:	
22,298	Council dwellings	20,679
25	Other land and buildings	45
0	Vehicle, plant, furniture and equipment	75
22,323	**Total capital expenditure**	**20,799**
	Funded by:	
(153)	Borrowing	(114)
(1,010)	Capital grants	(75)
(5,486)	Direct revenue financing	(9,044)
(15,674)	Major Repairs Reserve	(11,566)
(22,323)	**Total funding**	**(20,799)**

5. Depreciation

The Council charges depreciation on HRA assets in line with the accounting policy for property, plant and equipment. Council dwellings are depreciated over 50 years based on their actual value. The total depreciation charges were as follows:

2013/14 £000s		2014/15 £000s
11,569	Council dwellings	11,400
152	Other land and buildings	151
1	Vehicles, plant, furniture and equipment	15
11,722	**Total**	**11,566**

6. Downward revaluations

The Council values its dwellings every year using the Existing Use Value for Social Housing basis. In 2014/15, the valuation process resulted in a charge to the HRA of £16.745m, as shown in the following table:

2013/14 £000s		2014/15 £000s
	Revaluation losses recognised in the HRA Income and Expenditure Statement:	
29,590	Council dwellings	11,102
1,352	Other land and buildings	79
	Impairments recognised in the HRA Income and Expenditure Statement:	
12,012	Council dwellings	5,564
42,954	**Total**	**16,745**

7. Major Repairs Reserve

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

2013/14 £000s		2014/15 £000s
	The movement on the Council's Major Repairs Reserve (MRR) is as follows:	
(3,952)	Opening Balance at 1 April	0
(11,722)	Amounts transferred to MRR during the year:	(11,566)
15,674	Capital expenditure on land, houses & other property	11,566
0	**Closing balance as at 31 March**	**0**

8. Item 8 adjustment

This amount comprises the capital asset charges accounting adjustment which is calculated in accordance with the *Item 8 Credit and Item 8 Debit (General) Determination for the year*:

2013/14 £000s		2014/15 £000s
	Credit:	
(140)	Interest on notional cash balance	(97)
(41,602)	Impairments adjustment	(16,745)
(40)	Discounts for early repayment of debt	0
(41,782)		**(16,842)**
	Debit:	
17,681	Interest on loans	16,672
11,722	Depreciation	11,566
335	Debt management expenses	335
41	Premiums for early repayment of debt	12
42,954	Impairment charges	16,745
72,733		**45,330**
30,951	**Total item 8 debit**	**28,488**

Collection Fund Statement

2013/14 £000s		2014/15 £000s Business rates	Council tax	TOTAL	Notes
	Income				
(78,741)	Income from council tax	0	(79,999)	(79,999)	2
(87,772)	Income from business rates	(90,011)	0	(90,011)	
120	Reconciliation adjustments	141	0	141	
(166,393)	**Total income**	**(89,870)**	**(79,999)**	**(169,869)**	
	Expenditure				
	Apportionment of previous year surplus:				
2,000	Gateshead Council	0	2,000	2,000	
101	Tyne and Wear Fire and Rescue Authority	0	101	101	
116	Northumbria Police and Crime Commissioner	0	120	120	
2,217		**0**	**2,221**	**2,221**	
	Precepts, demands and shares:				
42,960	Central Government	44,161	0	44,161	
109,608	Gateshead Council	43,364	71,260	114,624	
4,282	Tyne and Wear Fire and Rescue Authority	883	3,612	4,495	
4,050	Northumbria Police and Crime Commissioner	0	4,276	4,276	
663	Transitional protection payments payable	1,335	0	1,335	
161,563		**89,743**	**79,148**	**168,891**	
	Less charges to Collection Fund:				
1,039	Write offs of uncollectable amounts	1,107	0	1,107	
1,050	Increase / decrease in bad debt provision	0	(230)	(230)	
3,380	Increase / decrease in provision for appeals	0	0	0	
294	Cost of collection	294	0	294	
(198)	Reconciliation adjustments	(190)	0	(190)	
5,565		**1,211**	**(230)**	**981**	
2,952	**(Surplus)/deficit arising during the year**	**1,084**	**1,140**	**2,224**	
(2,853)	**(Surplus)/deficit brought forward 1 April**	**3,456**	**(3,357)**	**99**	
99	**(Surplus)/deficit carried forward 31 March**	**4,540**	**(2,217)**	**2,323**	
	Attributable to:				
1,723	Central Government	2,374	0	2,374	
(1,324)	Gateshead Council	2,119	(1,993)	126	
(181)	Northumbria Police and Crime Commissioner	0	(123)	(123)	
(119)	Tyne and Wear Fire and Rescue Authority	47	(101)	(54)	
99		**4,540**	**(2,217)**	**2,323**	

Notes to the Collection Fund Statement

1. National non-domestic rates (NNDR) / business rates

In 2013/14, the local government financing system was overhauled with the introduction of a new scheme whereby councils retain an element of business rates (previously, councils simply acted as a collection agent for the government, paying funds into the national pool). The primary aim of the new scheme is to give councils a financial incentive to generate economic growth. However, the system also increases financial risks to the Council as bad debts and income volatility are transferred.

The scheme allows the Council to retain 49% of net business rates collected (with the exception of the New Development Deal, for which the Council can retain 100% above a pre-determined base); the remaining 51% paid to precepting bodies 50% to central government and 1% to the Tyne and Wear Fire and Rescue Authority.

2013/14		2014/15
47.1p	Rate in the pound	48.2p
£216.509m	Total non-domestic rateable value	£216.444m

2. Council tax

In 2013/14, the local government financing system was also revised with regard to council tax. Council tax benefit is no longer payable by the Department for Work and Pensions; instead, a grant (less 10%) is now payable as part of Revenue Support Grant.

Council tax income derives from charges raised according to the value of residential properties, which have been classified into eight valuation bands estimated at 1 April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council and preceptors for the forthcoming year and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a band D equivalent and further adjusted for discounts). The table below shows the calculation of the council tax base:

	Proportion of Band D Charge	Number of Properties		Band D Equivalent Properties	
		2013/14	2014/15	2013/14	2014/15
Band A - Up to £40,000 (disabled reductions)	5/9	55	89	31	49
Band A - Up to £40,000	6/9	30,959	33,866	20,639	22,577
Band B - £40,001 to £52,000	7/9	9,295	9,723	7,229	7,562
Band C - £52,001 to £68,000	8/9	12,748	12,726	11,332	11,312
Band D - £68,001 to £88,000	9/9	4,971	4,925	4,971	4,925
Band E - £88,001 to £120,000	11/9	1,758	1,978	2,149	2,418
Band F - £120,001 to £160,000	13/9	677	740	978	1,069
Band G - £160,001 to £320,000	15/9	275	341	458	568
Band H - Over £320,000	18/9	27	14	54	28
		60,765	**64,402**	**47,841**	**50,508**

	2013/14	2014/15
Council tax for a band D property	£1,602.97	£1,602.97

Part 4: Accompanying documents

Annual Governance Statement

approved by Audit and Standards Committee 22 June 2015

Scope of Responsibility

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs facilitating the effective exercise of its functions and which includes arrangements for the management of risk.

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on our website[24].

This statement explains how the Authority has complied with the Code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2011.

The Purpose of the Governance Framework

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

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

24 http://www.gateshead.gov.uk/DocumentLibrary/council/strategy/codeofgov.pdf

The governance framework has been in place at the Council for the year ended 31 March 2015 and approval of the Statement of Accounts 2014/15.

The governance framework

The Council continually reviews and improves its governance framework and during 2014/15, there were two significant changes:

Decision Making Structures

The first included changes to the decision making structures to help it deliver Vision 2030 and the Council Plan. This was reported to Cabinet on 13 May 2014. The changes reflect three underlying principles:

Policy Shift

The Council is operating in a changing policy context, for example the Council has taken on new responsibilities for public health. In addition, the Council Plan takes a more cross-cutting approach to policy changes, taking a broader approach to issues such as improving the economy, transport and employment. The revised structure is more flexible and responsive in a dynamic policy context.

Relationship Shift

The Council's relationships and how it works with others has also changed and the Council needs a structure that is fit for purpose and reflects this change. The Gateshead Strategic Partnership continues to evolve to include themed partnerships including Partnership Boards and the Health and Wellbeing Board.

Efficiency Shift

The Council is continuously evolving and the new governance structure provides a model that engages all councillors in a more streamlined and transparent way, enabling it to manage resources more effectively providing greater flexibility to respond to further change.

Organisational Structures

The Council is facing a number of significant challenges; unprecedented budgetary pressures and increasing demand in a rapidly changing policy context. The second change, reported to Cabinet on 16 September 2014, was to the Council's organisational structure to enable it to meet these challenges and deliver the Council's priorities and objectives through co-ordination of functions, allocation of resources and organisation of staff.

Under the revised structure, the Council's functions are delivered through the following service groups:

- Policy, Economic Growth and Transformation
- Care, Wellbeing and Learning
- Communities and Environment
- Corporate Services and Governance
- Corporate Resources

A clear statement of the purpose and vision for Gateshead is set out in the Sustainable Community Strategy, Vision 2030, owned by the Gateshead Strategic Partnership and published on the Council's website. The Council's objectives are set out in the Council Plan 2012-2017, which documents the Council's role, working with its partners, in supporting the delivery of this Strategy. These are translated into more specific aims and objectives in the business plans which each Council service prepares annually. The achievement of these objectives is monitored by individual services and at a strategic level by the Cabinet and Overview and Scrutiny Committees.

The Council's strategic framework is currently under development, which will bring together all of the various plans and strategies to inform a clear and defined list of priorities. This will support the Council to deliver its services as efficiently and effectively as possible. The Council Plan is being reviewed to provide focus for the next 5 years (2015-2020). A refresh of Vision 2030 is also being undertaken at this time.

The Council is pro-active in its approach to community engagement with all stakeholders. The aim is to ensure all local people are well informed about the Council; actively involved in influencing what happens in their local area and ensuring delivery of the services that meet the needs of local people. This included extensive consultation when Vision 2030 was first developed, and there continues to be an ongoing programme of consultation and engagement with residents, businesses and partners to inform decision making across all services.

The Council Plan sets out Culture, Creativity and High Impact Events and Creating Capacity Through Volunteering as strategic interventions that help the Council deliver its priorities. These interventions are supported by the recently launched Culture Strategy, the Volunteers Plan and Gateshead Communities Together Strategy. All of these documents aim to ensure communities are at the heart of community engagement, activities and events and are involved in decisions that will affect them. The Council also reports the progress on the Volunteers Plan to Corporate Resources Overview and Scrutiny Committee on annual basis.

The Council has a corporate performance management framework through which quality of service is measured via strategic outcome indicators. Performance is monitored by group and service management teams and scrutinised on a six-monthly basis by Overview and Scrutiny Committees, who report areas of concern to Cabinet. The Council has a performance management ICT system which brings together performance indicators, action and financial information to provide real time reporting.

The Localism Act, 2011 introduced a duty on Councils to promote and maintain high standards of behaviour by members of the Council. While the Act removed the requirement to have a Standards Committee, the Council has set up a politically balanced Committee to deal with any such issues and this was combined with the Audit Committee during 2014/15 as part of the changes to the decision making structures. The first meeting of the new Audit and Standards Committee took place on 23 June 2014. Employees are also subject to a Code of Conduct and number of specific policies (e.g. Bullying and Harassment) as set out in the Employee Handbook.

Policy and decision making are facilitated by a clear framework of delegation set out in the Council's Constitution. This sets out, among other things, where responsibility lies for developing and delivering policy, and for taking decisions. The Constitution provides for extensive delegation to officers but within a policy framework laid down by the Council, and with the more significant executive decisions being taken by the Leader and Cabinet. The Constitution, which was updated to reflect the Council's new operational structure, is subject to an annual review which ensures it is up to date in terms of changes to Council policy, revised delegations and legislative changes.

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

the Committee also receives the annual corporate risk management report and agrees the effectiveness of the Council's risk management arrangements.

The Strategic Director, Corporate Resources is designated as the responsible officer for the administration of the Council's financial affairs under section 151 of the Local Government Act 1972. This includes ensuring the lawfulness and financial prudence of decision-making; providing advice, particularly on financial impropriety and budget issues; giving financial information; and acting as the Council's money laundering reporting officer. It also extends to ensuring the financial arrangements in place conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

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

Compliance with established policies, procedures, laws and regulations is ensured by the requirement in the Constitution to give the Chief Executive, the Monitoring Officer and the Chief Finance Officer the opportunity to comment on every report submitted to a decision-making body. The Monitoring Officer has a legal duty to ensure the lawfulness and fairness of decision-making. This includes acting as the Council's Senior Information Risk Owner with overall responsibility for the Council's Information Governance procedures.

The Council maintains an independent Internal Audit Service. The Internal Audit Service is required to objectively examine, evaluate and report upon the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of the Council's resources. This is achieved through the delivery of a risk based annual audit plan which is agreed by the Audit and Standards Committee and monitored on a quarterly basis. The Chief Internal Auditor also prepares an annual report based on the work of the Internal Audit Service which provides an independent and objective opinion on the Council's control environment based on the work undertaken by the Service throughout the year. During 2014/15, the Internal Audit Services was externally assessed for compliance with Public Sector Internal Audit Standards. The outcome of the assessment was that the service is substantially compliant and identified no areas of concern that the Internal Audit Service is unable to form a judgement as to the proper and effective working of the Council's system of internal control. There were some minor areas for improvement which are not considered material to impact on the overall scope of operation of the service. The results of the assessment were reported to the Audit and Standards Committee on 26 January 2015.

The Council has a Human Resources Strategy, which enables managers to realise the full potential of their team and employees participate in a regular review of their achievement and development needs. The Council's 'whistle blowing' procedure was reviewed and refreshed during 2014/15, is set out in the employee handbook and contact details are on the Council's website. Responsibilities for investigation of allegations are set out in the Council's Fraud and Corruption Policy which was updated in March 2012. The policy will be reviewed during 2015/16 to take into consideration CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption which was published in December 2014.

The Council is committed to the training and development of all of its councillors. All councillors are encouraged to take the opportunity to draw up a Personal Development Plan

(PDP) which is monitored on an annual basis. The PDP helps to identify areas where individuals would like extra training or development. Councillors are also encouraged to attend training courses on specific issues including Ethics and Probity and Risk Management. In addition, a development pool has been established into which councillors can nominate themselves, to further develop their chairing skills. The Council has for many years, provided an induction programme for new councillors, giving the opportunity to meet with the Chief Executive and senior officers of the Council. The aim of the programme is to give an insight into how the Council works and the different services it provides to residents.

A partnership register is maintained which is updated by Strategic/Service Directors in a timely manner and then reviewed on an annual basis. Examples of partnerships on the register include the Gateshead Strategic Partnership, the Local Safeguarding Children Board and the Physical Disability and Sensory Impairment Partnership. A risk assessment model has been developed to assess the strength of each partnership arrangement in respect of governance, financial arrangements, reputation and delivery. The most significant partnerships to the Council have been identified from the Partnership Register and risk assessments have been completed by the relevant Strategic/Service Director for each of these.

Review of effectiveness

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

The review of the effectiveness of governance arrangements is informed by:

- The opinion of Members of the Cabinet;
- The work of senior managers within the Council;
- The effectiveness and work of Internal Audit, incorporating the Internal Audit Service and the Audit and Standards Committee
- Corporate Risk Management arrangements;
- The robustness of Performance Management and Data Quality information;
- The external auditor's annual audit letter and other reports;
- Assurance from the Strategic Director, Corporate Services and Governance on the operation of Council's Legal and Regulatory Framework;
- Assurance from the Strategic Director, Corporate Resources on the operation of the Council's financial controls, and
- Partnership governance arrangements.

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

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

The Council's Local Code of Governance is reviewed regularly and was last approved by the Audit and Standards Committee on 16 March 2015. A report was presented to the Audit and Standards Committee on 22 June 2015 in which Members of the Cabinet identified that they felt reliance could be placed on the Council's corporate governance arrangements when carrying out their roles. The code outlines the principles of good governance and how the Council's complies with them. In addition, it highlights a number of areas of future development opportunities to improve the governance framework. CIPFA are currently consulting on their Delivering Good Governance guidance to ensure it remains fit for purpose with a view to publishing a revised code of guidance in late 2015. The Council will use the revised guidance to inform its annual review of the local code.

Service Directors and Cabinet members have carried out self-assessments of the processes, controls and governance arrangements they have in place to allow them to achieve their service objectives. These included consideration of the effectiveness of internal controls. A report was submitted to the Audit and Standards Committee on 22 June 2015 which concluded that, based on the self- assessments, Service Directors and Cabinet members agreed that effective controls were in place.

The Chief Internal Auditor reports to the Council's Strategic Director, Corporate Resources, but in order to ensure independence has direct and unfettered access to the Chief Executive, Strategic Director, Corporate Services and Governance (Monitoring Officer), and the Audit and Standards Committee. A review of the effectiveness of Internal Audit, incorporating the Internal Audit Service and the Audit and Standards Committee, has been undertaken and was reported to the Audit and Standards Committee on 22 June 2015. This included an assessment of compliance with the CIPFA Statement on the Role of the Head of Internal Audit (2010) and compliance with Public Sector Internal Audit Standards. This concluded that the Council's system of internal audit is considered to be effective, which in turn allows the opinion of the Chief Internal Auditor to be relied upon.

The Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control, risk management and governance arrangements which was incorporated in the Annual Internal Audit Report to the Audit and Standards Committee on 22 June 2015. This opinion is based on audit reviews undertaken during the year which found all systems reviewed to be operating well or satisfactorily, except in 12 cases where significant weaknesses were identified. These weaknesses were in specific areas and as such there are no areas for improvement disclosed in this statement for 2014/15, as a result of the work of the Internal Audit Service.

The Annual Risk Management Report was presented to the Audit and Standards Committee on 22 June 2015, in which it was concluded that risk management arrangements are effective.

Regular reports on performance management information and data quality have been considered by Overview and Scrutiny Committees and Cabinet over the course of the year. The Council has redesigned its performance management framework to ensure it continues to remain effective, fit for purpose and sustainable. Based on the information provided during the year and internal reviews of data quality, effective controls are in place.

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

a decision-making body. No areas of significant non-compliance have occurred during 2014/15.

Assurance on the effectiveness of the Council's financial controls has been provided by the Strategic Director, Corporate Resources (Chief Financial Officer) who is designated as the responsible officer for the administration of the Council's financial affairs under section 151 of the Local Government Act 1972. Effective systems are in place to ensure the lawfulness and financial prudence of decision-making and to fully discharge the responsibilities of the role. The financial arrangements in place conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

Service Directors review partnerships within their business plans on an annual basis. As partners are key to the delivery of the Council's objectives assurance of their control and governance systems is required. Following extensive consultation and review, revised approaches to partnership working were agreed by Cabinet and the Gateshead Strategic Partnership Steering Group in October 2011. This has ensured partnership arrangements are more business and action focused whilst retaining inclusive and effective engagement with the wider Gateshead community. During 2014/15, the corporate guidance on managing partnerships effectively has been reviewed and updated.

The results of the review of the Council's governance arrangements during 2014/15, including the internal control and risk management environment, have concluded that it is effective.

Joint Statement by the Leader of the Council and the Chief Executive

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Standards Committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Signed:

Leader of the Council

Dated: 22/6/15

Signed:

Chief Executive

Dated: 22/6/15

Independent Auditor's Report

to the Members of Gateshead Council

Opinion on the Authority financial statements

We have audited the financial statements of Gateshead Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Gateshead Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Strategic Director, Corporate Resources and auditor

As explained more fully in the Statement of the Strategic Director, Corporate Resources' Responsibilities, the Strategic Director, Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Gateshead Council as at 31 March 2015 and of its expenditure and income for the year then ended; and

- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Opinion on other matters
In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception
We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.
- We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor
The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.
We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources
We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place

proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

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

Conclusion
On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that, in all significant respects, Gateshead Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

Gareth Davies
Partner
For and on behalf of Mazars LLP, Appointed Auditors
The Rivergreen Centre
Aykley Heads
Durham, DH1 5TS
xx September 2015

Glossary of Terms

Accounting policies *see Note 1*.

Accruals: the accruals basis of accounting requires that the non-cash effects of transactions be recognised in the period that they affect, rather than when cash is paid or received. An accrual is a sum included in the final accounts to cover income or expenditure attributable to an accounting period for goods supplied and received or works done, but for which payment has not been made / received by the end of the period.

Accumulated Absences Account *see Note 6b.*

Actuarial gains and losses are changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

Amortisation is the process of writing-off an intangible asset over its projected life. It is equivalent to depreciation of tangible non-current assets.

Appropriations are transfers to/from the Council's reserves from the Comprehensive Income and Expenditure Statement or the HRA. In addition, appropriations include the reconciling transactions needed to convert expenditure to amounts required from council tax.

Assets: an asset is "a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity" (IASB definition). Current assets change in value on a day-to-day basis (e.g. cash). Non-current assets yield benefit to the Council and the services it provides for a period of more than one year (e.g. land and buildings).

Available for sale assets are non-operational assets that meet the following criteria:

- They are available for immediate sale in their present condition subject to terms that are usual and customary for sales of such assets (or disposal groups);
- The sale is highly probable, with the Council committed to a plan to sell the asset;
- An active programme to locate a buyer and complete the plan has been initiated; and
- The asset (or disposal group) must be actively marketed for a sale at a price that is reasonable in relation to its current fair value. The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification and action required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Bad debts and bad debt provisions: bad debts are those debts which are uncollectable, due to debtors going bankrupt or absconding; bad debt provisions are funds set aside to provide for debtors failing to pay.

Best Value provides a framework for the planning, delivery and continuous improvement of Council services. The overriding purpose is to establish a culture of good management in local government for the delivery of efficient, effective and economic services that meet the users' needs.

Under Best Value, the Council has a duty to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness". This improvement involves consideration of costs,

making the most of money spent, and making sure that services meet the needs of communities and authorities' priorities.

Budgets are statements defining the Council's policies over a specified period of time in terms of finance. The budget also includes statements about the use of other resources (e.g. numbers of staff) and the methods of financing expenditure.

Capital Adjustment Account *see Note 6b.*

Capital charges are charges to the Comprehensive Income & Expenditure to reflect the cost of using assets. They are based upon depreciation, which represents the cost of using the asset**.**

Capital expenditure is expenditure on the acquisition of a non-current asset or expenditure which adds to and not merely maintains the value of an existing non-current asset.

Capital grants and contributions are funds provided by the government or other bodies to undertake work of a capital nature (i.e. to create a non-current asset).

Capital Grants Unapplied reserve *see Note 6b.*

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

Capital Receipts Reserve *see Note 6b.*

Cash comprises cash on hand and demand deposits, including uncleared BACS payments and unpresented cheques.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

Clawback is the recovery of grants by the awarding body in the event of the criteria for award not being met, such as expenditure on disallowed items or failure to meet targets.

Collection Fund Adjustment Account *see Note 6b.*

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

Componentisation is the allocation of the overall value of a significant non-current asset into separate components with materially different useful lives. This ensures that the depreciation charged more accurately reflects the consumption of economic benefits, recognising that some components will wear out more quickly than others.

There is no minimum requirement for the number of components for a non-current asset, and the number will vary depending on the nature and complexity of the asset.

Constructive obligation is an obligation that derives from an authority's actions where:
by an established pattern of past practice, published policies or a sufficiently specific current statement, the authority has indicated to other parties that it will accept certain responsibilities, and as a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

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

Contingent assets are possible assets arising from past events, whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

Contingent liabilities are either**:**

- possible obligations arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control, or
- present obligations arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

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

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

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

Creditors are amounts owed by the Council for goods and services received but where payment has not been made at the end of the financial year (i.e. 31 March). Creditors also include *receipts in advance*, where the Council receives income from external bodies or individuals in advance of service provision (e.g. payment of 2012/13 council tax bill in 11/12).

Current assets are items that can readily be converted into cash. These include items such as cash, debtors (net of bad debt provisions), investments, stock and work in progress.

Current liabilities are amounts owed to individuals or organisations that will be paid within twelve months of the Balance Sheet date.

Current service cost, for a defined benefit pension scheme, is the increase in liabilities as a result of years of service earned this year – allocated in the *Comprehensive Income and Expenditure Statement* to the Services for which the employees worked.

Curtailments are pension adjustments which reduce the expected years of future service of current employees or eliminate the accrual of defined benefits for some or all of their future service. Gains or losses on curtailment must be immediately recognised.

Debtors are amounts owed to the Council for goods and services supplied but where payment has not been received at the end of the financial year. The technical definition is: financial assets not traded in an active market with fixed or determinable payments that are contractual rights to receive cash or cash equivalents.

Deferred Capital Receipts *see Note 6b.*

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

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

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

Depreciation is the systematic allocation of the depreciable amount of a non-current asset over its useful life, and reflects the economic benefits consumed by the asset during the period.

Discretionary benefits are retirement benefits, which the employer has no legal, contractual or constructive obligation to award and are awarded under the Council's discretionary powers, such as the Local Government (Discretionary Payments) Regulations 1996.

Earmarked Reserves *see Note 6b.*

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

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

Estimation techniques are methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves.

Estimation techniques implement the measurement aspects of accounting policies. A policy will specify the basis on which an item is to be measured; where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique. They include, for example:

(a) methods of depreciation, such as straight-line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a non-current asset consumed in a period; and

(b) different methods used to estimate the proportion of debts that will not be recovered, particularly where such methods consider a population as a whole rather than individual balances.

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

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

Expected rate of return on pension assets: for a funded defined benefit scheme, is the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the scheme.

Fair value is the price at which it could be exchanged in an arm's length transaction less (where applicable) any grants receivable towards the purchase or use of the asset.

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of a non-current asset. Title may or may not eventually be transferred. Finance lease liabilities are equal to the net present value of minimum lease payments.

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

Financial Instruments Adjustment Account *see Note 6b.*

Formula grant is the general grant given to support local authority spending on services other than schools. It comprises revenue support grant and national non-domestic rates. In addition, authorities also receive a wide range of specific grants from government departments towards particular service areas or government initiatives (see area based grant). Central government support in total is known as aggregate external finance (AEF), comprising specific grants and formula grant.

General Fund *see Note 6b.*

Grants are assistance by other bodies in the form of cash or transfers of assets to the Council in return for past or future compliance with certain conditions relating to the activities of the Council.

Grant determination is a schedule provided by a grant awarding body that indicates the funding to be awarded and any conditions or restrictions associated with the grant(s).

Government grant is assistance by government, inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to the Council in return for past or future compliance with certain conditions relating to the activities of the Council.

Gross expenditure is the total cost of providing the Council's services before taking into account income from government grants and fees and charges for services.

Historical cost refers to the original monetary value of an asset.

Housing Revenue Account (HRA) *see Note 6b.*

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

IASs (International Accounting Standards) are accounting pronouncements issued by the International Accounting Standards Board (IASB). They have been adopted by the UK public sector in a move to make it more comparable with both the private sector and the international community as a whole. The main standards referred to within this document are IAS 19 *Employee Benefits*, which primarily gives a framework for the required pension fund disclosures, and IAS 16 *Property, Plant and Equipment* which prescribes the accounting treatment of property, plant and equipment assets.

IFRSs (International Financial Accounting Standards) are accounting pronouncements issued by the IASB. They have been adopted (or, in some cases, interpreted or adapted) by the UK public sector in an attempt to make it more comparable with both the private sector and the international community as a whole.

Impairment is the amount by which the carrying value of an asset (i.e. its current value in the accounts) exceeds its recoverable amount, caused either by a consumption of economic benefits (e.g. obsolescence, damage or adverse change in statutory environment), or a general fall in prices.

Infrastructure assets are non-current assets that are inalienable; expenditure on such assets is only recoverable through continued use of the asset. Examples of infrastructure assets are highways and footpaths.

Intangible assets are identifiable, non-monetary, non-current assets without physical substance. Examples include software licences, patents and copyrights.

Investments are separated into the following categories:

- Long-term investments are investments intended to be held for use on a continuing basis in the activities of the Council for 365 days or more; and
- Short-term investments occur when surplus funds are invested for 364 days or fewer.

Investments (pension fund) in the Local Government Pension Fund are accounted for in the statements of that fund. However, the Council is also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with the underlying obligations.

Investment properties are interests in land and/or buildings, in respect of which construction work and development have been completed, and which is held solely for its investment potential, with any rental income being negotiated at arm's length.

Leases: leasing is the method of financing the provision of various capital assets to discharge the Council's functions outside normal borrowing procedures but within the criteria laid down in the Local Authorities (Capital Finance) Regulations. Leases are classified as either *finance leases* or *operating leases*.

Levies: similar to precepts, these sums are paid to other bodies. However, these amounts are not collected through council tax as with precepting bodies; they are items of expenditure on the face of the Income and Expenditure Account. The bodies that charge a levy on the Council are the Tyne and Wear Integrated Transport Authority, the Environment Agency and the Tyne Port Health Authority.

Liabilities are legally binding obligations to settle debts owed / commitments made.

Liquid resources are current asset investments that can be readily disposed of by the Council without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

Local Government Pension Scheme (LGPS) is a nationwide public sector pension schemes for employees working in local government. It is administered locally for participating employers through many regional pension funds. The Tyne and Wear Pension Fund manages the Council's pension assets and liabilities[25].

Long-term contract is a contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period.

Major Repairs Allowance is the main housing subsidy for the Council, based on the cost of maintaining council dwellings.

Major Repairs Reserve *see Note 6b.*

[25] See http://www.twpf.info for further information

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

Minimum lease payments are payments over lease term that lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:

a) For a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or
b) For a lessor, any residual value guaranteed to the lessor by:
   (i) The lessee;
   (ii) A party related to the lessee; or
   (iii) A third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

Net book value, or carrying amount, is the amount at which non-current assets are included in the Balance Sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation / amortisation.

Net interest on the net defined benefit liability / asset, i.e. net interest expense for the authority: this is the change during the period in the net defined benefit liability / asset that arises from the passage of time charged to *the Financing and Investment Income and Expenditure* line of the *Comprehensive Income and Expenditure Statement*. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability / asset at the beginning of the period - taking into account any changes in the net defined benefit liability / asset during the period as a result of contribution and benefit payments.

Net realisable value is the open market value of an asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred in realising the asset.

Non-current assets are those that yield benefits to the local authority and the services it provides for a period of more than one year.

Operating lease is a lease other than a finance lease.

Operational assets are non-current assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility or for the service or strategic objectives of the Council.

Past service cost, for a defined benefit pension scheme, the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

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

Pensions Reserve *see Note 6b.*

Precepts are amounts of council tax collected by the Council and paid to other bodies. The major precepting bodies are *Northumbria Police Authority* and *the Tyne and Wear Fire and Rescue Authority*. Parish precepts are charged separately and only on the area of the parish council concerned. Parish precepts are treated in the accounts as council expenditure.

Private finance initiatives (PFIs) are public / private sector partnerships designed to procure new major capital investment resources for local authorities. They are intended to form a substantial and genuine additional source of funding to local authorities rather than merely being a replacement for existing funding.

Prior period adjustments are material adjustments applicable to prior years arising from changes in accounting policies or from the correction of material errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

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

Prudential borrowing is the current regime for council borrowing; it gives local authorities much more freedom than the previous system in deciding how much they can afford to borrow. All borrowing must remain within the Council's prudential borrowing limits (see Prudential Code), which are agreed annually by committee (Council).

Prudential Code for Capital Finance in Local Authorities is a framework for local authority capital investment introduced through the Local Government Act 2003. The basic principle of the Prudential Code is that local authorities will be free to invest so long as their capital spending plans are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice.

Prudential indicators: to demonstrate that local authorities have fulfilled the objectives of the Prudential Code, prudential indicators must be used. They are designed to support and record local decision making in a manner that is publicly accountable, but are not designed to be comparative performance indicators.

Related parties: A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Section of the Code referred to as the 'reporting entity').

a) A person or a close member of that person's family is related to a reporting entity if that person:
   - (i) has control or joint control over the reporting entity;
   - (ii) has significant influence over the reporting entity; or
   - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

b) An entity is related to a reporting entity if any of the following conditions apply:
   - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
   - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
   - (iii) Both entities are joint ventures of the same third party;
   - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
   - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
   - (vi) The entity is controlled or jointly controlled by a person identified in (a); or
   - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Related party transaction is a transfer of resources or obligations between a reporting entity and a related party, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the authority or the government of which it forms part.

Remuneration (or allowance) is any consideration or benefit derived directly or indirectly by key management personnel from the authority for services provided in their capacity as elected members or otherwise as employees of the authority.

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

Residual value is the net realisable value of a non-current asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

Retirement benefits are all forms of consideration given by the Council in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either:

(i) an employer's decision to terminate an employee's employment before the normal retirement date; or

(ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

Return on plan assets shows the difference between the actual return and interest income on pension fund assets notionally allocated to the Council (separate to the amount disclosed within Net Interest). It is charged to the Pensions Reserve as *Other Comprehensive Income and Expenditure* excluding amounts included in net interest on the net defined benefit liability / asset.

Revaluation Reserve *see Note 6b.*

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

Revenue expenditure funded from capital under statute: this is expenditure that is legally allowed to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a non-current asset; for example, improvement grants.

Revenue funding is grant funding used to support the revenue expenditure of the Council. It may be 'ringfenced' to specific areas or may be general.

Revenue support grant (RSG) is grant paid by the government towards local services in general, as opposed to specific grants (which may only be used for a specific purpose).

Scheme liabilities (of a defined benefit scheme) are outgoings due after the valuation date. They are measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

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

Settlement (pensions) is an irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

a) A lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;

b) The purchase of an irrevocable annuity contract sufficient to cover vested benefits; and

c) The transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

Special Services cover services to HRA tenants such as cleaning, communal lighting, lifts, communal heating, laundry services, concierge schemes, ground maintenance and welfare services, excluding essential care and other special services.

Stocks are held on the Balance Sheet in expectation of future use when unused or unconsumed. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises.

Strain on the fund: when a member of the LGPS is allowed to retire early (e.g. efficiency, redundancy or with the Council's consent), employee and employer pension contributions stop but benefits become payable earlier than assumed and will be paid for a longer period. To meet the additional cost to the fund, the employer must make additional payments called strain costs.

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

Unusable reserves are those reserves that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences. Note 6 provides further information on the individual reserves in this category.

Usable reserves are those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. They can also be described as 'cash-backed'. Note 6 provides further information on the individual reserves in this category.

Useful life, or useful economic life, is the period over which, the local authority will derive benefits from the use of a non-current asset.

Vision 2030 is Gateshead's Sustainable Community Strategy which sets out the following ambitious and aspirational vision for Gateshead:

> "Local people realising their full potential, enjoying the best quality of life in a healthy, equal, safe, prosperous and sustainable Gateshead."

It reflects the views of thousands of people and is informed by evidence gathered from Gateshead, giving a picture of the quality of life and services across the Borough.

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Web links:

Gateshead Council	www.gateshead.gov.uk
Gateshead Housing Company	www.gatesheadhousing.co.uk
Tyne and Wear Archives and Museums	www.twmuseums.org.uk
Association of North East Councils	www.northeastcouncils.gov.uk/
Traffic Accident Data Unit	www.northeast-tadu.gov.uk
Beamish Open Air Museum	www.beamish.org.uk
Northumbria Safer Roads Initiative	www.safespeedforlife.co.uk
Newcastle Airport	www.newcastleairport.com
Clean Tyne Project	www.gateshead.gov.uk/CleanTyne
North East Procurement Organisation	www.qtegov.com

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Appendix 5

Post-circulation amendments

1. The following additional, minor changes have been made to the draft version of the Statement of Accounts issued to Audit and Standards Committee and Accounts Committee members due to late amendments. The changes are as follows:

Explanatory Foreword

- Page 6 footnote: the footnote should show NCS amount of £174.405m, not the original amount of £179.599m (required amendment due to the reclassification of the Better Care Fund grant).

- Page 5 income chart: the pie chart has been amended to re-allocate a £10m income from general grants and contributions to customer receipts (to reflect an inconsistency identified by Mazars).

Core statements

- Page 19 Cash Flow Statement: debtors movement should be £6,845k and creditors £10,925k to reflect movements in the Balance Sheet (to reflect changes identified by the auditors in the Audit Completion Report).

Notes

- Page 21 Note 4 Accounting standards issued but not yet adopted: given that the changes have the potential to be material in 2015/16, additional narrative has been included for the reference to IFRS 13 Fair value measurement as requested by Mazars.

- Page 28 Note 8 Segmental Analysis: the opening narrative has been slightly expanded to indicate that the rationale for not restating the 2013/14 segmental analysis figures following the Council's functional review.

- Page 49 Note 20 PFI: 20b required a correction (capital repayment value) due to incomplete revision following audit review of the waste PFI scheme. The table also required amendment for the schools PFI net payment which had not been revised following audit changes.

- Page 63 Note 26 Financial instruments: the narrative relating to gross amounts due from financial liabilities was amended to exclude amounts owed to HMRC (2014/15 and 2013/14 comparators). Long-term figures were also added in.

Independent Auditor's Report

- Page 82: Mazars requested that an additional text be added to the second paragraph of the report to ensure that the correct Opinion is signed and published on Council's website.

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