Gateshead Council

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AUDIT AND STANDARDS COMMITTEE AGENDA

Monday, 19 October 2020 at 10.30 am in the The meeting will be held virtually. Please click here to access the meeting.

From the Chief Executive, Sheena Ramsey

Item	Business
1	**Apologies for Absence**
2	**Minutes** (Pages 3 - 12) The Committee is asked to approve, as a correct record, the minutes of the meeting held on 20 July 2020.
3	**Declarations of Interest** Members of the Committee are invited to declare interests in any agenda items.
4	**Audit Completion Report Year Ended 31 March 2020 and Gateshead Council Statement of Accounts 2019/20** (Pages 13 - 150) Report of the Strategic Durector, Resources and Digital
5	**Treasury Management Performance to 30 September 2020** (Pages 151 - 154) Report of the Strategic Director, Resources and Digital
6	**Achievement of Going Concern Status** (Pages 155 - 160) Report of the Strategic Director, Resources and Digital
7	**Annual Report to Cabinet and Council 2019/20** (Pages 161 - 170) Report of Strategic Director, Resources and Digital
8	**Annual Governance Statement 2019/20 - Internal Audit Review of Managers' Assurances** (Pages 171 - 172) Report of the Strategic Director, Resources and Digital
9	**Corporate Risk Management 2020/21 Quarter 2 Update** (Pages 173 - 176) Report of the Strategic Director, Resources and digital

10 **Exclusion of the Press and Public**

The Committee may wish to exclude the press and public from the meeting during consideration of the exempt agenda in accordance with paragraphs 7 of Schedule 12A to the Local Government Act 1972.

11 **Mid-Year Counter Fraud Update 2020/21** (Pages 177 - 184)

Report of the Strategic Director, Resources and Digital

12 **Internal Audit Plan 2020/21 Quarterly Monitoring Report to 30 September 2020** (Pages 185 - 194)

Report of the Strategic Director, Resources and Digital

13 **Date and time of next meeting**

The next meeting will be held on Monday 25 January 2021 at 10.30 am

Contact: Helen Conway- Tel: 0191 433 3993 - Email: helenconway@gateshead.gov.uk
Tel: 0191 433 3993
Date: Friday, 9 October 2020

GATESHEAD METROPOLITAN BOROUGH COUNCIL

AUDIT AND STANDARDS COMMITTEE MEETING

Monday, 20 July 2020

PRESENT: Councillor M Charlton (Chair)

Councillor(s) S Green, L Green, J McElroy, R Beadle, Mt S Bell and Mr G Clark (Independent Members)

APOLOGIES: Councillor D Burnett and Mr B Jones (Independent Member)

ASC267 WELCOME TO NEW MEMBER

The Chair welcomed Councillor Ron Beadle and Ged Morton, Service Director, Corporate Services and Governance to their first meeting of the Committee.

ASC268 MINUTES

RESOLVED – That the minutes of the meeting held on 9 March 2020 were approved as a correct record.

ASC269 DECLARATIONS OF INTEREST

There were no declarations of interest.

ASC270 CONSULTATION ON DRAFT MODEL CODE OF CONDUCT CONSULTATION

The Committee received a report setting out the proposals for consultation on a new model Code of Conduct for Elected Members and sought comments and approval to respond.

The LGA have produced an online consultation questionnaire, designed for both members and officers. The Committee were advised that the LGA draft Model Code of Conduct has been developed in consultation with the wider local government sector and the LGA has committed to undertake an annual review of the Model Code to ensure it continues to be fit for purpose, particularly with respect to advance in technology, social media and any relevant changes in legislation.

The draft Model Code covers its purpose and application, refers to the seven Principles of Public life and describes what model member conduct is expected. It goes on to describe the minimum requirements through some specific obligations of general conduct.

To assist members in considering the consultation the LGA have produced a consultation questionnaire setting out questions to consider, this is an online from but was also reproduced for members as an appendix to the main report.

Any individual whether an elected Member, Independent Person or Officer may respond to the consultation.

Members will wish to note that responding to the consultation does not commit the Council to adopting the Model Member Code of Conduct. The Strategic Director Corporate Services and Governance as the Council's Monitoring Officer envisages that the Audit and Standards Committee would wish to reconsider the model code in detail, set against a review of the existing Code of Conduct for Councillors once the final version of the LGA Model Code is launched.

RESOLVED -
i) That the information be noted
ii) That Members note the current consultation regarding the LGA's model code of conduct and provide any comments to the Strategic Director, Corporate Services and Governance to respond to the consultation
iii) That the outcome of the consultation and the final version of the model code of conduct be submitted to a future meeting of the Committee

ASC271 EXTERNAL AUDITOR: AUDIT PROGRESS REPORT

The Committee received a report and verbal update requesting that the Committee note the external auditor's progress against planned work.

The report summaries 2019/20 audit progress, and includes:

- An updated Communications and Timeline summary; and
- CIPFA Year End Bulletin

The external auditor's report was appended to the main report.

RESOLVED - That the information be noted

ASC272 OVERSIGHT OF MANAGEMENT PROCESSES 2019/20

The Committee received a report detailing how the Committee exercises oversight of management processes in certain areas of governance in order to provide assurance to the external auditors.

The external auditor is required by auditing standards to develop a good understanding of the Council's management processes. This is a requirement as part of their work in respect of auditing the Council's financial statements and value for money conclusion.

The areas of governance under consideration, together with an explanation of how oversight is exercised by the Audit and Standards Committee, was appended to the main report.

RESOLVED - i) That the information be noted

ii) The Committee agreed that an effective level of oversight is in place

ASC273 MEMBERS' ASSURANCE STATEMENTS 2019/20

The Committee received a report informing them of the opinion of Members of the Cabinet on the effectiveness of the Council's governance arrangements to feed into the Annual Governance Statement.

The Council adopted a Local Code of Governance in 2007, which was last updated and agreed by the Audit and Standards Committee on 27 January 2020. This code defines how the Council complies with the principals of good governance as set out on the Local Code of Governance developed by CIPFA, Delivering Good Governance in Local Government: Framework. The principles of good governance in the framework are:

- Behaving with integrity;
- Ensuring openness and comprehensive engagement;
- Defining sustainable outcomes;
- Determining interventions;
- Developing capacity;
- Managing risks and performance; and
- Implementing good practices in transparency

The Committee were advised that the Council's government framework is consistent with these principles which ensure they are fully integrated in the conduct of the Council's business.

Assurance was sought from Councillors who served in the Cabinet during 2019/20, in the form of a self-assessment statement, on the effectiveness of the Council's corporate governance arrangements, by reference to the principles set out above.

All Cabinet Members considered that governance arrangements are effective.

RESOLVED - i) That the information be noted
ii) The Committee endorsed the opinion that the Council's governance arrangements are effective.

ASC274 MANAGERS' ASSURANCE STATEMENTS 2019/20

The Committee received a report informing them of the assurance which Service Directors have placed on their control systems to feed into the Annual Governance Statement.

The Committee agreed on 9 March 2020 an assurance framework which would provide evidence for the completion of the Annual Governance Statement.

The Committee were advised that if managers felt that they did not have sufficient

evidence to agree with a statement they were required to identify actions for improvement which would strengthen systems in place to an effective level.

Based on the evidence arising from the self-assessment for 2019/20, managers agreed that necessary controls were in place in key processes to allow them to achieve their service objectives and therefore the objectives of the Council.

All assessments issued have been returned detailing satisfactory evidence. A summary of returns was presented showing each process being assessed. The most common areas of improvement identified by managers were in relation to revisiting business planning and risk registers to ensure they reflect the recent restructure and continue to support delivery of Council priorities.

Internal Audit has time in the 2020/21 audit plan to review the evidence and actions identified by managers on their assurance statements for 2019/20, including any actions managers have identified to enhance controls.

RESOLVED - That the information be noted

ASC275 REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT 2019/20

The Committee received a report which asked the Committee to review the effectiveness of internal audit within the Council for 2019/20.

The Accounts and Audit Regulations 2015 require all authorities to “conduct an annual review of the effectiveness of internal audit and for a committee of the body to consider its findings” and that this process should be part of the annual review of the effectiveness of the system of internal control, which results in the production of the Annual Governance Statement.

Best practice highlights that “internal audit”, in this context, includes not only them Internal Audit Service but also the Audit and Standards Committee in 2019/20.

The review ensures that the opinion of the Chief Internal Auditor given in the Internal Audit Annual Report, included as a separate report on this agenda, can be relied upon as a key source of evidence in the Annual Governance Statement.

The review of the effectiveness of the system of Internal Audit for 2019/20 has been undertaken by the Council’s Internal Control Group, which includes the Strategic Directors of Resources & Digital and Corporate Services & Governance. The basis of the review is set out in paragraph 5 of the report, and paragraphs 6-13 of the report set out the review process undertaken in each area and the outcomes, including the review of the Audit and Standards Committee which found it to be operating effectively. A copy of this assessment is attached at Appendix B to the report.

Paragraph 14 sets out the key performance indicators for the Service in 2019/20, with all key targets achieved.

As previously reported to the Audit and Standards Committee on 28 October 2019, benchmarking continues to highlight the Internal Audit Service as being low cost with high productivity in comparison with other local authorities.

Based on the review detailed above the Council's Internal Control Group concluded that the Council's System of Internal Audit is operating effectively.

RESOLVED -
i) That the information be noted
ii) That the opinion that the Council's system of Internal Audit is operating effectively be endorsed
iii) That the thanks of the Committee be passed onto the team for their work, particularly during the COVID19 pandemic.

ASC276 CORPORATE RISK MANAGEMENT ANNUAL REPORT 2019/20

The Committee were advised that assurance derived from risk management forms part of the evidence to inform the Annual Governance Statement. The report presents to Committee the arrangements that exist within the Council for managing risk, the impact that these have had and also the plans for further development of risk management arrangements.

The Corporate Risk Management Report is attached at Appendix 1, and outlines the prevailing arrangements that exist within the Council for managing risk, the impact that these have had on the Council's operations and the plans for further development of risk management arrangements.

RESOLVED -
i) That the information be noted
ii) The Committee agreed that the Council has effective risk management arrangements in place

ASC277 EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED - That the press and public be excluded from the meeting during the consideration of the remaining business in accordance with Paragraph 3 of Schedule 12A to the Local Government Act 1972.

ASC278 ANNUAL COUNTER FRAUD UPDATE 2019/20

The Committee received a report advising that the assurance derived from counter fraud arrangements forms part of the evidence to inform the Annual Governance Statement and outlined the arrangements that exist within the Council for countering fraud and provided an update to the Committee on activity undertaken since 1 April 2019 by the Internal Audit and Risk Service in relation to the work of the Corporate Fraud Team.

Para 9 of the report gave a flavour of some of the awareness initiatives carried out in year to promote Counter Fraud awareness, and paras 13-17 set out how potential frauds and irregularities are monitored and reported.

The Corporate Fraud Team received 144 fraud referrals during 2019/20, which for the most part were of a trivial nature or unproven. The referrals related to a variety of fraud types and a full breakdown using CIPFA Benchmarking Categories is shown in Appendix 1.

Paragraphs 21-37 summarise some of the significant areas of proactive fraud work during the year, including Right to Buy where the application of Corporate Fraud Team checks on applications has resulted in the cancellation of 13 applications, saving almost £570,000 of discount. In addition, these properties will remain part of the Council's stock and continue to generate rental income.

Two of the applications that were cancelled also resulted in the tenants handing back their keys saving the Council notional costs of £186,000.

One ongoing investigation from last year has now concluded with the accused agreeing to a caution, which was an admission of guilt, on condition they paid the Council discount and costs totalling £93,465.

There are currently two ongoing investigations that are being worked on with assistance from Legal and Democratic Services. One tenant is being summoned to the Magistrates Court in late October which could result in a right to but discount of £49,455 being repaid and the other is under investigation with the potential of a trial to proceed.

Updates on these investigations will be reported to a future meeting of this Committee.

Work conducted by the team specifically in relation to Right to Buy fraud has generated an overall saving of £849.175.

RESOLVED -
i) That the information be noted
ii) The Committee agreed that the Council has effective counter fraud arrangements in place

ASC279 INTERNAL AUDIT ANNUAL REPORT 2019/20

The Committee received a report informing them about the work undertaken by the Internal Audit and Risk Service during 2019/20 and gave overall assessment of the adequacy of the Council's internal control systems and governance arrangements to inform the Annual Governance Statement and to provide a summary of the main audit findings.

Paragraphs 4-9 set out the key elements of the Quality Assurance framework for Internal Audit, and paragraphs 11-13 set out the main audit findings. The Committee were advised during 2019/20 the Council's internal control systems and governance arrangements are considered to be effective.

This opinion is based on all audit activity throughout the year, which has been reported to the Audit and Standards Committee on a quarterly basis. Attached at Appendix A is a summary of the audit activity for the year.

For 2019/20, 72 audits (84%) (74, 83% in 2018/10) concluded that systems and procedures in place were operating well or satisfactory. 14 audits (16%) (15, 17% in 2018/19) concluded that systems and procedures had significant weakness.

As a result of this audit work there are no areas for inclusion as future actions for improvement in the Annual Governance Statement for 2019/20.

RESOLVED – That the report and audit opinion be noted.

ASC280 RE-ADMITTANCE OF THE PRESS AND PUBLIC

RESOLVED – That the press and public be re-admitted to the meeting for the remainder of the meeting.

ASC281 ANNUAL GOVERNANCE STATEMENT 2019/20

The Committee received a report and were asked to review the evidence of assurances provided on the Council's internal controls, risk management and governance arrangements, and approve the Annual Governance Statement 2019/20 which was appended to the main report.

The Accounts and Audit Regulations 2015 require Councils to produce an Annual Governance Statement giving an assessment of governance arrangements and their effectiveness. This accompanies the Annual Statement of Accounts and is signed by the Leader of the Council and the Chief Executive

The Audit and Standards Committee agreed on 9 March 2020 the assurance framework which would provide evidence for the completion of the Annual Governance Statement. Para 3 of the report sets out the areas where assurances were required, and paragraphs 5-22 summarise how the assurance was obtained in each area.

As reported to the Audit and Standards Committee on 9 March, a corporate group uses the findings from these sources of assurance to form a view on the adequacy of the Council's overall internal control and governance arrangements. Using evidence from this assessment the Group prepares the Annual Governance Statement for approval by this Committee, which will then accompany the Councils Annual Statement of Accounts.

This Group, the Internal Control Group, which is chaired by the Strategic Director, Resources and Digital and includes the Strategic Director, Corporate Services and Governance along with representatives from Internal Audit and Corporate Risk Management has reviewed the evidence from the sources of assurance reported and prepared the Annual Governance Statement for 2019/20 which is attached at Appendix A.

This AGS has been prepared during the outbreak of COVID-19. During this period the Council has operated within the framework of its Business Continuity Plans which have been developed to enable the Council to operate effectively in times of crisis. Critical activities were prioritised and support services were delivered at a reduced level to comply with Government guidance and also enable redeployment of resources to support critical activities. Paragraph 24 of the AGS summarises the key actions taken to ensure Governance arrangements continued to be effective, and paragraph 42 how assurance was provided on the effectiveness of arrangements and the intention to review lessons learned at the appropriate time.

Based on the review of the Council's governance arrangements during 2019/20 including the internal control and risk management environments, the opinion is that the Council's governance arrangements continue to be regarded as fit for purpose.

Based on the review of the arrangements introduced to strengthen governance to support the Council's response to the COVID-19 emergency, the opinion is that the Council's governance arrangements continue to be fit for purpose during that period.

The Annual Governance Statement therefore reflects this opinion and gives detail the evidence obtained to achieve it, actions taken to improve governance following the previous Annual Governance Statement, and an action plan for the next year.

RESOLVED -

i) That the information be noted

ii) That the Annual Governance Statement to accompany the Statement of Accounts 2019/20 be approved

iii) That the Annual Governance Statement and the Statement of Accounts 2019/20 be passed to the Leader of the Council and the Chief Executive for signature.

iv) That the thanks of the Committee are placed upon record to all staff for their continued work and dedication during the COVID-19

pandemic

ASC282 DATE AND TIME OF NEXT MEETING

The next meeting of the Committee will be held on Monday 28 September 2020 at 10.00 am.

Chair……..……..

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Audit and Standards Committee
19 October 2020

Title of Report: **Audit Completion Report Year Ended 31 March 2020 and Gateshead Council Statement of Accounts 2019/20**

Report of: **Darren Collins, Strategic Director, Resources and Digital**

Purpose of the Report

1 This report updates the Audit and Standards Committee on the outcome and findings of the audit of Gateshead's Statement of Accounts 2019/20 by the Council's external auditor Mazars.

Background

2 The Accounts and Audit Regulations 2015 require that the Council's Statement of Accounts should be approved by a committee. In Gateshead's governance framework, this is the Accounts Committee. However, best practice guidance outlines that the Audit and Standards Committee should also review the financial statements and external auditor's opinion. Review by this Committee is an additional step in the process to comply with best practice.

3 As a result of COVID-19, the Accounts and Audit (Coronavirus)(Amendment) Regulations 2020 extended the statutory deadlines for 2019/20. The publication date for final, audited accounts moved from 31 July 2020 to 30 November 2020.

4 The annual audit of the Council's Statement of Accounts and use of resources has now been substantially completed for 2019/20 and the Council's external auditor, Mazars has issued its report, subject to the completion of outstanding work.

5 The Audit Completion Report covers:

- The Council's Statement of Accounts including significant findings, internal control recommendations and a summary of misstatements;
- The Council's arrangements for securing economy, efficiency and effectiveness in its use of resources including a value for money conclusion.

6 The external auditor's report is attached at Appendix 1 and the Council's Statement of Accounts is attached at Appendix 2.

7 Although Mazars anticipate completing their work in October, it should be noted that they also place reliance on the work of other auditors, including Ernst and Young (EY) work to give assurance on the Tyne and Wear Pension Fund (TWPF) disclosures in the Council's Statement of Accounts, and disclosures in relation to the Council's interest in the airport. They also need to review the work of KPMG in

respect of external Audit of The Gateshead Housing Company (TGHC) Statement of Accounts in order to be able to place reliance on the TGHC figures incorporated into the Group Accounts.

7. An update position will be presented to the Committee by Mazars. A follow-up letter will be provided, prior to signing the auditor's report.

Audit Completion Report

8. Mazars' Audit Completion Report is included as Appendix 1 to this report. The key messages are as follows:

- Audit Opinion – At the time of issuing the report, and subject to satisfactory conclusion of the remaining audit work, Mazars anticipate issuing an unqualified opinion on the financial statements, including drawing attention to the Valuer's material uncertainty statement on property, plant and equipment (PPE).
- Identified misstatements – the auditors' work identified a number of misstatements that have been discussed with management. A summary of the identified misstatements is set out below. Further work is ongoing in relation to the valuation of PPE.
- Value for Money – at the time of issuing the report Mazars anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
- Whole of Government Accounts (WGA) – the timetable for the Council's submission has not yet been published by MHCLG. Audit work will be completed as soon as possible once these details have been clarified.
- Internal control recommendations in relation to the note 10 on grants, Beacon properties records, review of bad debt provisions, and sign off of Housing Rents.

9. To provide a full picture of the economic and financial activities of the Council and its exposure to risk, the accounting statements of material subsidiaries and associate companies were consolidated with those of the Council. In 2019/20 the only material subsidiary was TGHC due to the pension liability.

10. The Statement of Accounts is materially consistent with the 2019/20 revenue and capital outturn reports considered by Cabinet on 23 June 2020. Along with minor adjustments and presentational changes, the following significant findings and misstatements to the Statement submitted for audit on 7 July 2020 have been identified through the audit process:

Significant Findings

- Significant risk of management override of controls – no issues.
- Significant risk of revenue recognition – no issues.
- Significant risk of defined benefit liability valuations – subject to the completion of outstanding work. Assurance awaited from the pension fund auditor EY.
- Significant risk property, plant and equipment valuation – Attention to be daw to material valuation uncertainty disclosure as a 'emphasis of

matter'. Work remains ongoing in relation to the Council's shared waste facility and the current valuation of primary schools.
- Significant risk valuation of short and long-term debtors – subject to outstanding work.
- Enhanced risk valuation of long-term investments – no issues.

Significant Issues Discussed with Management

11. The following significant matters have been discussed with management:

    - the impact of COVID-19 on the Council's financial statements;
    - the valuation of the Council's land and buildings, including the Valuer's material uncertainty statement;
    - the valuation of the Council's shared waste facility;
    - the significant variances arising from the triennial valuation of the Pension Fund;
    - the valuation and assumptions made in the downward valuation of the Airport shares, as well as the expected credit loss for the Council's long-term loan notes to the Airport;
    - the calculation of the impairment of debtors; and
    - the Council's assessment of whether there are any post balance sheet events.

    Unadjusted Misstatements

    - **Changes to the Insurance provision** – being an overstatement specific to one individual insurance claim.
    - Reclassification of short-term to long-term debtors

12. A number of adjustments have been made between the draft accounts and the final accounts. These are summarised below:

    Adjusted Misstatements

    - **Comprehensive Income and Expenditure Statement (CIES)** – reanalysis of the deficit recognised on the investment in Newcastle Airport.
    - **Bad Debt Provision –** correction of over provision for council tax and business rates.
    - **CIES –** correction of group income and expenditure.

    Disclosure Amendments

13. A number of presentational and disclosure errors have been amended. Further detail is outlined in section 4 of the external auditor's report.

14. 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 assessed the identified unadjusted misstatement as not being material, either individually or in aggregate to the financial statements, and does not plan to adjust.

Recommendation

15. The Committee is requested to note the contents of the external auditor's Audit Completion Report and any update reports and review and comment on the Statement of Accounts 2019/20, prior to submission to the Accounts Committee.

Contact name: Darren Collins Ext - 3582

Audit Completion Report

Gateshead Council

Year ending 31 March 2020

Gateshead Council

MAZARS

CONTENTS

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

October 2020

Dear Members

Audit Completion Report – Year ended 31 March 2020

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 9 March 2020. Since we issued our Audit Strategy Memorandum the UK has been subject to the challenges and restrictions of COVID-19. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

One implication of COVID-19 for the Council was that the deadlines for submission of the draft and audited financial statements were pushed back to 31 August and 30 November respectively. Despite the revised deadlines we acknowledge the difficulties encountered by your team during accounts preparation and audit, and would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0781 375 2053.

Yours faithfully

Signed: {{_es_:signer1:signature }}

Cameron Waddell (Key Audit Partner)
For and on behalf of Mazars LLP

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1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Gateshead Council (the Council) for the year ended 31 March 2020, and forms the basis for discussion at the Accounts Committee meeting, which is currently arranged to meet on 2 November 2020.

The detailed scope of our work as your appointed auditor for 2019/20 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control (relevant to Council and Group accounts).
- Revenue recognition in relation to miscellaneous income (relevant to Council accounts only).
- Defined benefit liability valuation (relevant to Council and Group accounts).
- Property, plant and equipment valuation (relevant to Council accounts only).

Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

Subject to the satisfactory completion of the remaining audit procedures, we anticipate issuing an unqualified opinion on the financial statements, including drawing attention to the Valuer's material uncertainty statement in the key audit matter on property, plant and equipment. This relates to the impact of COVID-19, which is disclosed in Note 17 of Council's financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Value for Money conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B

Whole of Government Accounts (WGA)

The timetable for the Council's WGA submission has not yet been published by MHCLG, and NAO have not yet issued auditors with their group instructions. We will complete the required work to the MHCLG timetable as soon as possible once these details have been clarified .

Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. Further details on the exercise of our wider powers are provided in section 2.

1. EXECUTIVE SUMMARY (CONTINUED)

Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2020. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Pensions	🟠	Work to be finalised. The assurance from the Pension Fund auditor has not yet been received and considered.
Property, plant and equipment	🟠	Work to be finalised, including consideration of the valuation of the Council's shared waste facility.
Valuation of short and long-term debtors	🟢	Our work is ongoing in this area.
Other areas	🟢	Our work is on-going in a number of areas. Including a review of the Council's assessment of going concern
Group accounts	🟢	Work to be finalised, including consideration of final assurance from the component auditor (KPMG).
Closing procedures	🟢	Review and closure processes, including consideration of post balance sheet events and checking the revised financial statements.

Status

- 🔴 Likely to result in material adjustment or significant change to disclosures within the financial statements
- 🟠 Potential to result in material adjustment or significant change to disclosures within the financial statements
- 🟢 Not considered likely to result in material adjustment or change to disclosures within the financial statements

We will provide the Accounts Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in March 2020. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set materiality at the planning stage of the audit at £14.173 million (Council) and £14.274 million (Group) using a benchmark of 2% of Gross Revenue Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £12.971 million (Council) and £12.977 million (Group), using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Accounts Committee at £0.389 million (Council and Group based on 3% of overall materiality.

1. EXECUTIVE SUMMARY (CONTINUED)

Overview of our group audit approach

Our Audit Strategy memorandum provided details of our intended group audit approach, including our initial assessment of group materiality. The table below confirms the approach we have taken to auditing the Council's consolidated financial statements.

Entity	Nature of entity audit	Auditor	Description of audit procedures undertaken on the component	Changes to audit approach
Gateshead Council (parent)	NAO Code audit	Mazars LLP	A full audit of the Council financial statements and consolidation process	None
The Gateshead Housing Company (subsidiary)	Statutory audit (FRS102)	KPMG	We undertook specific audit procedures relating to the company's net pension liability as reported in the Group financial statements. We also undertook desktop group analytical procedures on the financial information prepared for group reporting purposes using component materiality	None

As disclosed in note 15 of the financial statements Related Party Transactions the Council has applied a consideration of materiality in determining which of its subsidiaries, associates and joint ventures to consolidate into its Group financial statements which has resulted in only one subsidiary being consolidated.

The Council's consideration of the material impact of these interests on its Group financial statements is in accordance with the applicable financial reporting framework

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Accounts Committee in a follow-up letter.

2. SIGNIFICANT FINDINGS

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

- our audit conclusions regarding 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 9 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;
- any further significant matters discussed with management;
- any significant difficulties we experienced during the audit; and
- modifications required to our audit report.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk	Description of the risk
Management override of controls (relevant to Council and Group accounts)	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 there is a risk of material misstatement due to fraud on all audits.
	How we addressed this risk We addressed this risk through performing audit work over: • Accounting estimates impacting on 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 audit work has provided the assurance we sought and has not identified any material issues to bring to your attention. There is no indication of management override of controls.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Revenue recognition (relevant to Council accounts only)	Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable. We have concluded that we can rebut the presumption of a revenue recognition risk for the majority of the Council's revenue streams, consisting largely of taxation, business rates and grant income. However, we do not feel that sufficient scope exists to rebut this risk in respect of the recognition of fees, charges and other income given the demand led nature of these revenue streams . This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.
	How we addressed this risk • substantively tested fees, charges and other income to ensure it had been correctly classified and recognised; • tested journals; and • obtained direct confirmation of year-end bank balances and tested the reconciliations to the ledger.
	Audit conclusion Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Significant risk	Description of the risk
Defined benefit liability valuation (relevant to Council and Group accounts)	The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement. The risk has increased as a result of the economic downturn arising from COVID-19.
	How we addressed this risk • we discussed with key contacts the significant changes to the pension estimates; • in addition to our standard programme of work in this area, we evaluated the management controls in place to assess the reasonableness of the figures provided by the Actuary; and • considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is carried out annually by the NAO's consulting actuary (PWC).
	Audit conclusion Subject to the completion of outstanding work, our work has provided the assurance sought. At this stage we have not identified any errors in respect of the valuation of pensions, but await assurance from the pension fund auditor.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Property, plant and equipment valuation (relevant to Council accounts only)	The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of property, plant and equipment (PPE). Although the Council employs an external valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the revaluation of PPE to be an area of risk. The risk has increased as a result of the economic downturn arising from COVID-19. We note also the Valuation Practice Alert issued by the valuation body The Royal Institute of Chartered Surveyors (RICS) recently. This highlighted the use by valuers, where appropriate, of material uncertainty declarations in their valuation reports.
	How we addressed this risk • we considered the Council's arrangements for ensuring that PPE values are reasonable; • we used an external expert (Gerald Eve) to provide data to enable us to assess the reasonableness of the valuations provided by the Council's valuer; • we used an external expert (Cluttons) to provide data to enable us to assess the reasonableness of the valuation of the Council's waste facility; • we also assessed the competence, skills and experience of the valuer; and • where necessary we also performed further audit procedures on individual assets to ensure that the basis and level of revaluation was appropriate.
	Audit conclusion The valuers followed guidance issued by the Royal Institute of Chartered Surveyors and their valuation reports disclosed a "material valuation uncertainty" in relation to the valuation of the Council's land and buildings. The draft financial statements made no reference to this material valuation uncertainty which would have added to users understanding of the accounts. The accounts have now been amended to include, in Note 17, a reference to COVID-19 and the fact that valuations have been reported on the basis of "material uncertainty" We plan, in line with normal practice, to include reference to this disclosure as an 'emphasis of matter' in our audit report. The purpose of this paragraph is to draw attention to this disclosure, it is not a qualification and does not modify our proposed unqualified opinion on the financial statements. Our draft Auditor's Report at Appendix B includes a draft emphasis of matter paragraph (as highlighted on page 25 of this report). The draft wording is subject to our internal review processes, and if this wording subsequently changes we will provide an update in the follow up letter to the Accounts Committee when the audit is completed, as noted on page 4 of this report. Work is ongoing in relation to the valuation of the Council's shared waste facility and also the current valuation of primary schools

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Valuation of short and long-term debtors	There is an increased risk that the valuation of debtors, both short and long-term, will be impacted by the economic downturn. The Council's long-term debtors includes loans to other bodies and Newcastle Airport. The Council also has provided for the potential impairment of short-term debtors which may be impacted by the economic downturn.
	How we addressed this risk We: • critically reviewed the basis of valuation of short and long-term debtors; • challenged the assumptions made by the Council; and • required specific representations from management.
	Audit conclusion Subject to the completion of outstanding work, our work has provided the assurance sought.

Enhanced risk	Description of the risk
Valuation of long-term investments (Airport shares and other investments)	The Council has to make judgements in respect of the fair value measurements of unquoted equity investments it holds, namely Newcastle Airport. The risk has increased as a result of the economic downturn arising from COVID-19.
	How we addressed this risk We: • assessed the basis of valuation for the Council's shares in the Airport; • critically reviewed the assumptions made by management; and • assessed whether disclosures were in line with the Code of Audit Practice.
	Audit conclusion Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the Council's accounting practices

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting (the Code). We have considered the appropriateness of the use of the going concern assumption and have reviewed the Council's accounting policies and disclosures and concluded they comply with the requirements of the Code, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council by 7 July, ahead of the revised deadline of 31 August 2020 and were of a good quality and supported by comprehensive working papers. Given the impact of COVID-19 the whole audit was completed remotely.

Significant matters discussed with management

Over and above our challenge of management's judgements and assertions made in producing the financial statements, the following significant matters were discussed with management:

- the impact of COVID-19 on the Council's financial statements, including the potential impact on risks of material misstatement;
- the valuation of the Council's land & buildings, as reported elsewhere in this report, including the Valuer's material uncertainty statement, as disclosed in Note 17 of the financial statements, due to COVID-19;
- the valuation of the shared PFI waste facility, for which the Council engaged its own expert, due to the specialist nature of the asset and therefore we similarly engaged an expert;
- the significant variances arising from the triennial valuation of the Pension Fund;
- the external valuation and the assumptions made in the downward valuation of the Airport shares, as well as the expected credit loss for the Council's long-term loan notes to the Airport;
- the calculation of the impairment of debtors allowance and the impact of the economic downturn; and
- the Council's assessment of whether there are any post balance sheet events.

Significant difficulties during the audit

The impact of the COVID-19 pandemic on the audit has been significant. We have had the full co-operation of officers and Council management during what has been a challenging audit period. These challenges have been resolved through the dedication and support provided by officers.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2019/20 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. There have been no objections or questions from local electors during the audit.

3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor 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 assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	3
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	1

Other deficiencies in internal control – Level 2

Description of deficiency

When preparing Note 10 Government & non-government grants of the financial statements the data as per Agresso is taken and then manual amendments are made. Given the quantity of data, this year it amounted to over 8,000 lines, manual review is very time consuming and is prone to errors.

Potential effects

When large amounts of data are involved manual preparation can lead to errors. Our audit identified a number of small errors in terms of value.

Recommendation

Data from Agresso should require as little manipulation as possible when preparing the financial statements

Management response

Awaiting management response

Description of deficiency

Beacon property records should be updated. In our testing we became aware that the same property was aligned to two Beacons (Springwell Tarslag and Springwell Dorran) which would indicate there is little difference in these Beacons.

Potential effects

Incorrect valuations of council dwellings.

Recommendation

Review Beacon properties to ensure they are appropriate. Ensure individual addresses aligned to the Beacon property are appropriate.

Management response

Awaiting management response

Description of deficiency

Errors were identified in relation to the calculation of bad debt provision for council tax debt, business rates debt and housing benefit overpayments debt. The error in calculating bad debt provision for housing benefit overpayments debt has been ongoing for a number of years.

Potential effects

Provision for bad debts is misstated which could result in a material misstatement in the accounts

Recommendation

All bad debt provision calculations should be reviewed to ensure they have been correctly calculated

Management response

Awaiting management response

Other recommendations on internal control – Level 3

Description of deficiency

On the Housing Rents walkthrough, the formal document which approves sign off of the rent calculations has not been signed by an accountant and business partner

Potential effects

Incorrect rent charges are made

Recommendation

Sign off of the rent calculations should be made by an accountant and business partner

Management response

Awaiting management response

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Follow up of previous internal control points

We set out below an update on internal control points raised in the prior year.

Description of deficiency

There is no up to date service level agreement (SLA) in place between the Council and The Gateshead Housing Company (TGHC).

Potential effects

This may lead to arrangements between the two parties being out of date

Recommendation

Given the services provided by TGHC to the Council, the current SLA needs to be up to date

2019/20 update

Following the Cabinet decision on 16 July 2019, a revised management fee letter was agreed which included specific key performance indicators (KPI's) to strengthen the Council's oversight of TGHC's performance. An updated schedule of performance meetings between TGHC and the Council was also agreed as part of the process.

Description of deficiency

Our work identified that the rules relating to privilege accounts were not outlined in the IT Security policy nor in the other standard, procedures and policies.

Potential effects

Although high privilege access to IT systems is only granted to authorised staff, without clear guidance on who they should be issued to and how they should be used, there could be inappropriate or fraudulent accesses to IT resources and/or fraudulent or unintentional data alteration or entry

Recommendation

Create policies for privilege accounts.

2019/20 update

No evidence found of weaknesses in relation to this control in 2019/20 testing. Recommendation not repeated

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Description of deficiency

We undertook 100% testing of leavers during 2018/19 to determine if access from the following IT systems - Active Directory, Agresso, Capita, iTrent or CareFirst - had been removed within one week of leaving dates as recorded by Human Resources (HR). We identified that

- 2 leavers did not have access to Active Directory removed within one week of leaving;
- For Agresso system 7 leavers identified who had not been removed from the system as at the date of testing. Mitigating controls were in place, in that all of these leavers had been removed from the Active Directory;
- Within Capita system 2 leavers were identified who had not been deactivated on Capita however in both cases access to Active Directory had been removed;
- Within CareFirst system one leaver still had access to this system however Active Directory access had been promptly removed.

Potential effects

If leavers continue to have access to IT systems when they are no longer employees there is a risk of

- Inappropriate or fraudulent accesses to IT resources
- Fraudulent or unintentional data alteration or entry.

Recommendation

Ensure that existing policies and procedures are always implemented to ensure that Assyst tickets are raised for leavers and/or that HR reports are complete.

2019/20 update

No evidence found of weaknesses in relation to this control in 2019/20 testing. Recommendation not repeated

Description of deficiency

The iTrent and Capita system users are not regularly reviewed to identify any out of date user accesses.

Potential effects

Staff who no longer require access to systems should be promptly removed to prevent inappropriate or fraudulent accesses to IT resources or fraudulent or unintentional data alteration or entry.

Recommendation

Officers should ensure that the access rights of out of date users are removed.

2019/20 update

No evidence found of weaknesses in relation to this control in 2019/20 testing. Recommendation not repeated

4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £0.389 million.

The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements 2019/20

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Insurance provision			450	
	Cr: Communities and environment – expenditure		450		
	Being overprovision in relation to one specific insurance claim which will be settled in future years				
2	Dr: Long term debtors			926	
	Cr: Short term debtors - bodies external to general government				926
	Audit testing of a sample of short term debtors identified that in one instance a payment arrangement had been made which meant debt was being repaid over a number of years. Council undertaken further work and identified additional debtors which should also be shown as long term including interest due on airport loan notes				
	Total unadjusted misstatements	**0**	**450**	**1376**	**926**

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Adjusted misstatements 2019/20

		Comprehensive Income and Expenditure Statement		Balance Sheet	
	Council	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Deficit on financial assets measured at fair value through other comprehensive income	3,882			
	Cr: Financing & investment income & expenditure (interest receivable & similar income)		3,882		
	Being reanalysis of the deficit recognised on the investment in Newcastle airport to the appropriate line in CIES				
2	Dr: Bad debt provision			5,345	
	Cr: CIES - council tax income and business rates retained		5,345		
	Bad debt provision overprovided This also impacts on Collection Fund statement as bad debt provision for business rates should be decrease of £219k and increase in provision for council tax should be £468k so total increase is £249k not £9,540k - £9,291k difference				
	Group	3,425			
3	Dr: Housing, environment & health communities expenditure				
	Cr: Housing, environment & health communities income		3,425		
	Being correction of error made when determining group income and expenditure. This was originally netted off and included below the line (nil net figure) however should have been disclosed above line as part of Housing, environment & health				

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Disclosure amendments

Our audit identified a number of presentational and disclosure errors which have been amended. Only those which are considered significant have been listed here:

- The impact of COVID-19 on PPE valuations has been considered by the valuer and as a consequence the valuation report includes a RCIS material valuation uncertainty clause. The draft financial statements made no reference to this material valuation uncertainty which would have added to users understanding of the accounts. The accounts have now been amended to include in Note 17 (Property, plant and equipment) a reference to COVID-19 and the fact that valuations have been reported on the basis of "material uncertainty"
- Note 8 Expenditure and Funding Analysis (EFA) – A number of inconsistencies were identified between Table 2 and Note 6a (Adjustments between accounting basis and funding under regulations)
- Note 8 EFA – A number of figures in table 3 have been amended due to errors being identified in relation to internal recharges.
- Note 10 Government and non-government grants - two account codes were omitted from the original client working paper and correction for this resulted in specific government grants attributable to services Department for Education increased from £119.847 million to £124.374 million.
- Note 10 government and non government grants and Note 8 EFA – audit sample testing of Note 10 identified some inconsistencies between disclosures in Note 10 and Note 8. The Council were already aware that an error had been made when preparing Note 10 as the figure in Note 10 for ""other revenue contributions attributable to services"" was not the same as figure in Note 8 ""other grant, reimbursements and contributions"" (£56.632 million compared to £55.461 million) and were reviewing their working papers to establish which was the correct figure to disclose. Both figures have been amended to £56.210 million with amendments then required in other lines within both notes to ensure internal consistency.
- Note 11 operating leases – The disclosure note was incomplete as Public Sector plc (PSP) leases had been omitted. Once included, the note now reads:
    - not later than one year should be £3.901 million (£1.537 million per draft)
    - later than one year and not later than five years should be £12.885 million (£2.996 million per draft) and
    - later than five years should be £141.655 million (£5.443 million per draft).
- Note 14 Officers remuneration – Whilst the Director of Economy, Innovation and Growth was correctly included in the Remuneration of senior employees 2019/20 table for the period from 01/11/19, they should also have been displayed in the employees earning over £50,000 (in the £60,000 to £65,000 banding) to cover the period 1/4/10 to 31/10/20.
- Note 15 Related party transactions - Work on cash and bank identified that PSP should be included in this note as a related party.
- Note 15 Related party transactions – The disclosure relating to Newcastle airport included a paragraph showing £67.665 million loan notes issued between NIAL and LA7. The Note has been expanded to disclose the value of the Council's share of the loan notes.
- Note 17 Property, plant and equipment – The figures in a number of tables had been input incorrectly and were subsequently amended.
- Note 19 Capital Commitments and capital financing - Assets acquired under PFI/PPP contracts were incorrectly disclosed in the draft accounts as 2018/19 figures had been used and not 2019/20.

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Disclosure amendments

- Note 25 Employee benefits – In the actuarial assumptions table, the Group figures for the rate of increase to deferred pensions and the rate of increase in salaries were incorrect in the draft accounts.
- Note 26 Financial instruments – This note has been amended to provide information with regards to the aged or impaired debtors for non-financial assets.
- Cash flow statement - audit work identified that the 'increase in debtors' needed to be reduced by £4.136 million and the line "other non-cash movement" increased by £4.136 million.
- Housing Revenue Account - note 3 vacant possession value – The vacant possession value of lock up garages was incorrectly disclosed.
- Collection Fund statement - The precept figures for Tyne and Wear Fire Authority (TWFRA) and Northumbria Police and Crime Commissioner (NPCC) had been incorrectly disclosed, with the TWFRA precept showing the NPCC figure and vice versa.

5. VALUE FOR MONEY CONCLUSION

Our approach to Value for Money

We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making.
- Sustainable resource deployment.
- Working with partners and other third parties.

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	The Council have clear decision-making processes in place along with clear governance structures which are reviewed regularly and updated when necessary to ensure they remain fit for purpose. A formal Council Constitution is in place that sets out the scheme of delegation for decisions. This was updated in May 2019 and is available on the Council's website. The Council's system of internal control is subject to review by Internal Audit, who have given an opinion that there continues to be an adequate system of internal control in place. The Annual Governance Statement provides a summary of the governance framework and management organisational arrangements in place to ensure informed decision-making and explains how assurance on the effectiveness of these arrangements in the year has been provided to the Audit and Standards Committee.	Yes
Sustainable resource deployment	Council formally approved the 2019/20 budget of £206.999 million at the meeting on 21 February 2019. During the year, the Council received a further £0.263 million of funding in relation to the Better Care fund, resulting in total available revenue funding of £207.262 million. Included within the approved budget was the requirement to achieve savings of £13.113 million during the year (see below for the results of our work on these savings).	Yes

5. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	Cabinet received the 2019/20 outturn report on 23 June 2020. The report identified an overall surplus of £0.237 million. In addition, the Council received an in-year VAT refund of £3.893 million in relation to Leisure Services, resulting in an overall surplus of £4.130 million. This outcome extends the Council's track record of delivering increasingly challenging revenue outturns within budget. The Council ended 2019/20 with general reserves of £11.058 million, a reduction of £3.749 million from 2018/19. A further £43.391 million is held in earmarked general fund reserves. The level of general fund balances is approved annually by Council as part of the MTFS review. The Capital Strategy reflects the Council's priorities. All capital schemes are appraised and prioritised to ensure they reflect the key investment requirements in this strategy. The implications of the capital programme are appropriately reflected in the MTFS. In our Audit Strategy Memorandum we identified a significant risk in relation to this criteria. In order to assess the robustness of the Council's plans, we have: • completed testing of the achievement of the Council's monitoring and action plans for a sample of savings included in the budget; • reviewed the updated Medium-Term Financial Strategy; • reviewed budget monitoring reports and other finance updates; and • reviewed progress in identifying further savings. Our findings from this work are outlined below. **Achievement of 2019/20 savings programme** Included within the approved budget was the requirement to achieve savings of £13.113 million during the year (see below for the results of our work on these savings). This target was made up of individual projects, each with a savings target. These amounts were deducted from base budget allocations. If any service identified that it could not meet any of the savings identified then it was required to make alternative savings from other budgets within the service.	

5. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment (continued)	The final outturn for achieved savings was £10.470 million, meaning that the Council achieved approx. 80% of the target, a substantial increase on the 2018/19 saving of 58% . The unachieved savings being have been carried forward into 2020/21. This highlights the ongoing challenge to achieve savings in a financially challenging environment. However the Council managed to make compensating savings elsewhere to achieve a reported underspend of £0.237 million. We tested a sample of the 2019/20 savings plans and assessed delivery against the target level of savings. The main issues identified were in relation to the non delivery of savings relating to Children, Adults & Families, Public Health & Wellbeing and Housing, Environment & Healthy Communities. Work is ongoing to strengthen arrangements in this area. **Arrangements for achievement of 2020/21 savings programme** Included in the Council's 2020/21 budget, approved by Council on 27 February 2020, is a savings target of £0.451 million. Officers have carried out detailed work in this area and have identified savings plans for a number of individual projects to achieve this target. The same detailed monitoring arrangements for the savings plans remain in place. Based on our review of the arrangements in place and management's responses to our challenge on the deliverability of a sample of savings plans we have no issues to report however officers do acknowledge that achieving the required savings remains challenging. **Review of 2021/22 savings target** The Councils medium term financial strategy has identified a 2021/22 funding gap of £16.260 million. The process of working with Directorates to identify savings has already began. When a list of savings schemes has been identified, due by Autumn 2020, it will then be challenged by both officers and members before being subject to a public consultation exercise which is due to begin in late 2020. The outcome of this consultation will be fed back into the process before a detailed savings plan will be produced and challenged as part of the 2021/22 budget process.	

5. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment (continued)	**Review of the Medium Term Financial Strategy (MTFS)** The MTFS sets the financial context for the Council's resource allocation process and budget setting. Cabinet received the latest version of the MTFS in October 2019, based on a financial forecast over a rolling 5 year timeframe from 2021/22 to 2025/26. This was produced to ensure resources were aligned to the outcomes in the Corporate Plan - Making Gateshead a place where everyone thrives. Despite the ongoing COVID-19 issues, work on the MTFS refresh is progressing well. The Council's financial challenge, based on current the current MTFS outlines a funding gap of £41.9 million over the next four years. The cumulative impact of the financial pressures means that the Council's ability to deliver the budget from underspends in other areas continues to diminish.	
Working with partners and other third parties	The Council continues to have written procedures for procuring products and services, which are within its Constitution. Contract Procedure Rules outline the financial regulations currently in place. The Council's risk register includes a strand on partnership working due to the importance of this area. It is involved in a number of significant partnerships, including: • Patrizia Limited and Ask Real Estate Limited; • Gateshead Regeneration Partnership; and • South Tyne and Wear Waste Management Partnership	Yes

5. VALUE FOR MONEY CONCLUSION

Overall assessment ('reality check')

Having gathered evidence in each area we have conducted a final 'reality check', which included consideration of our cumulative knowledge of the Council and, in particular:

- reports by statutory inspectorates, other regulators and external advisors;
- achievement of performance and other targets; and
- performance against budgets and other financial targets.

We do this to identify anything that would make us reconsider our conclusion

Evidence	Auditor assessment
Outputs by statutory inspectorates or other regulators	We have considered the latest reports from both OFSTED and CQC are part of our work. Inspections carried out by the above bodies did not identify issues that would make us reconsider our conclusion.
Achievement of performance and other targets	Our review of the 'Value for Money Profiles' (based on data from Public Sector Audit Appointments) did not identify any indicators which would suggest weaknesses in the Council's arrangements, or any information contrary to our knowledge of the Council.
Performance against budgets and other financial targets	We reviewed the Council's Year End Assessment of Performance and Delivery 2019/20 reported in September 2020. This did not identify any matters suggesting a material weakness in the Council's arrangements or any information contrary to our knowledge of the Council.

Our overall Value for Money conclusion

Our draft auditor's report included in Appendix B states that we intend to issue an unqualified Value for Money conclusion for the 2019/20 financial year.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER

Mr Cameron Waddell
Partner
Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS

Date: X October 2020

Gateshead Council and Group - audit for year ended 31 March 2020

This representation letter is provided in connection with your audit of the financial statements of Gateshead Council (the Council) for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) and applicable law.

I confirm that the following representations, to the best of my knowledge and belief, 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 financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

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 financial statements 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, Resources and Digital 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 Council and committee 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 Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

Accounting estimates, including those measured at fair value
I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or 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 the 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 Code and applicable law.

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.
The Council has 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, Resources and Digital 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 financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the 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 the Council's financial statements 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 Code and applicable law.
I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Charges on assets
All the Council's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

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

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

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.

Service Concession Arrangements
I am not aware of any material contract variations, payment deductions or additional service charges in 2019/20 in relation to the Council's PFI schemes that you have not been made aware of.

Subsequent events
I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, 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.

Going concern
I confirm that I have carried out an assessment of the potential impact of the COVID-19 Virus pandemic on the Council and Group, including the impact of mitigation measures and uncertainties and I am satisfied that the going concern assumption remains appropriate and that no material uncertainty has been identified.

To the best of my knowledge there is nothing to indicate that the Council and Group will cease to continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements
I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. *Please make sure the appendix is attached to the letter and not cross-referenced to the appendix in the ACR.*

Yours faithfully

Strategic Director, Resources and Digital: ……
Date: ……

APPENDIX B
DRAFT AUDITOR'S REPORT

Independent auditor's report to the members of Gateshead Council and Group

Report on the financial statements

Opinion

We have audited the financial statements of Gateshead Council and Group for the year ended 31 March 2020, which comprise the which comprise Council and Group Movement in Reserves Statement, Council and Group Comprehensive Income and Expenditure Statement, Council and Group Balance Sheet, Council and Group Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. including a summary of significant accounting policies. 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council and the Group as at 31st March 2020 and of the Council's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

THE WORDING OF THIS PARAGRPH IS SUBJECT TO INTERNAL REVIEW AND IS SUBJECT TO CHANGE

Emphasis of Matter

Material uncertainty relating to valuations of land and property

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in Note 17 to the financial statements concerning the material valuation uncertainty statements made by the Council's valuers.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Strategic Director, Resources and Digital's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Strategic Director, Resources and Digital has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's and Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Strategic Director, Resources and Digital is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Strategic Director, Resources and Digital for the financial statements
As explained more fully in the Statement of Responsibilities, the Strategic Director, Resources and Digital 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 2019/20, and for being satisfied that they give a true and fair view. The Strategic Director, Resources and Digital is also responsible for such internal control as the Strategic Director, Resources and Digital determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Strategic Director, Resources and Digital is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Strategic Director, Resources and Digital is responsible for assessing each year whether or not it is appropriate for the Council and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Authority's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

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

Conclusion
On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that, in all significant respects, Gateshead Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Basis for conclusion
We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in April 2020, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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 Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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

APPENDIX B
DRAFT AUDITOR'S REPORT (CONTINUED)

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources
We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Use of the audit report

This report is made solely to the members of Gateshead Council as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit
We can not formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Cameron Waddell
Key Audit Partner
For and on behalf of Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS

X October 2020

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.

CONTACT

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Senior Manager: Jim Dafter

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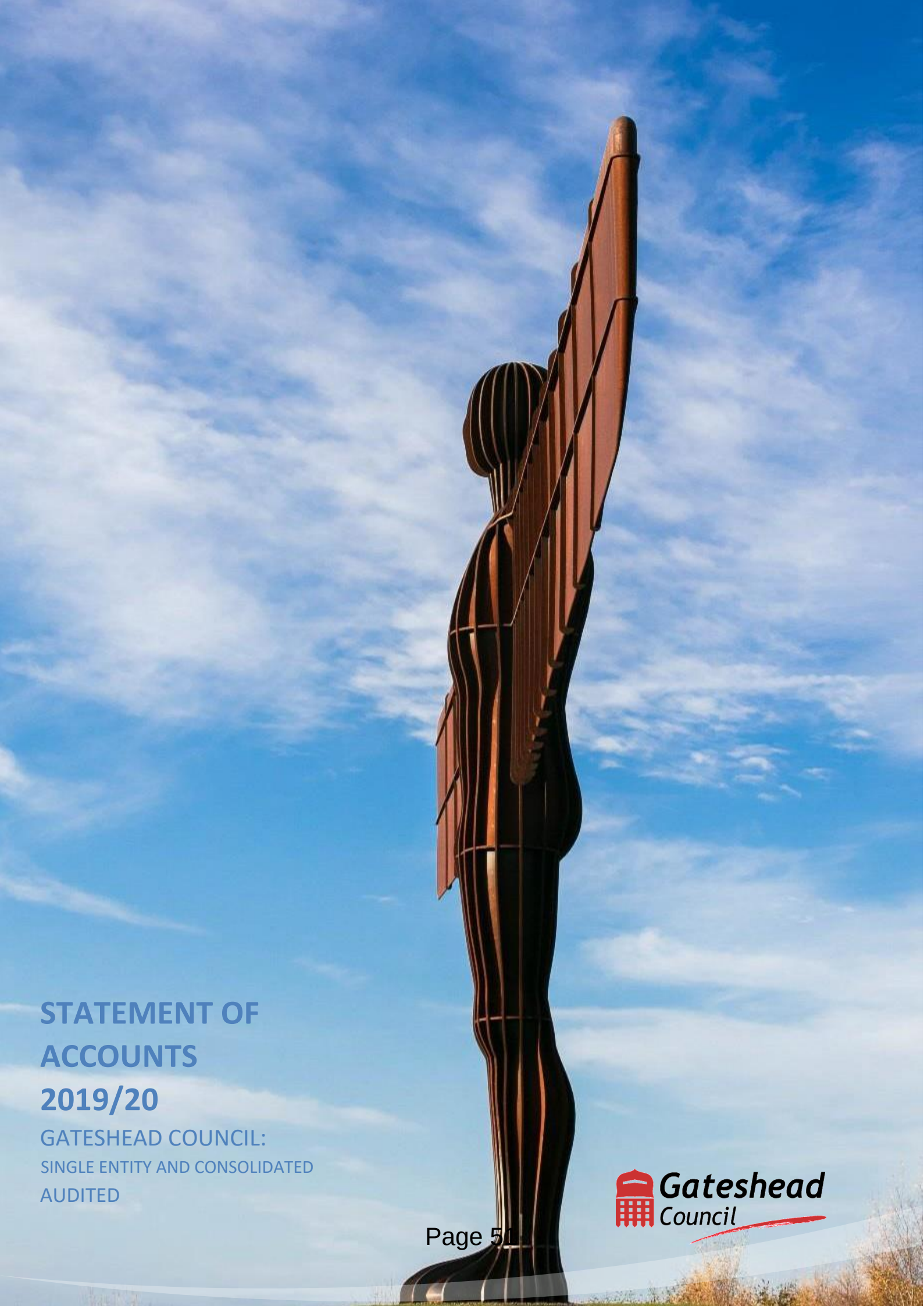


STATEMENT OF ACCOUNTS 2019/20

GATESHEAD COUNCIL:

SINGLE ENTITY AND CONSOLIDATED

AUDITED

Gateshead Council

Contents Page

Leader's Foreword

by Councillor Martin Gannon
Leader of the Council

The Council has always been fiercely ambitious for the people of Gateshead, working hard to ensure it is a great place to live, work and visit. Guided by our *Thrive* agenda we are placing people and families at the heart of everything that we do and strive to deliver person-centred, quality services to residents in the borough.

The COVID-19 pandemic has obviously had a significant impact on residents and the delivery of council services in the borough. It has also created an extremely challenging financial environment for the council to operate within. The Council is playing an active role in the overall national response to COVID-19, including the administration of business rate reliefs and grants, supporting households through the council tax reduction scheme, supporting the care market, supporting vulnerable residents and other initiatives, and enabling many of the workforce to work remotely from home to maintain essential services. Our focus throughout has been to provide support to those who have needed us most.

The COVID-19 pandemic impacted at the very end of the 2019/20 financial year and therefore the true impact is not reflected in this statement of accounts. However, the Council is expecting to face significant challenges during the 2020/21 and beyond, as it deals with the immediate and longer-term impact of the crisis. We will continue to work with Government to realise true cost recovery for our role in responding to the pandemic.

The scale of the financial challenge we're facing is enormous and this continues to impact on the everyday lives of local people. At the same time, the global pandemic is having a fundamental and negative impact on the economy and presents a series of significant challenges for the economic health of the country and its public finances in both the short and medium term. As such, the outlook for local government funding remains unclear. As we move forward, we will need to consider how the Council remains financially resilient and sustainable in what are very uncertain times for our borough and the country.

Prior to the outbreak, the Council was already addressing the challenge of cumulative annual cuts to Government funding, which alongside other spending pressures such as rises in the cost of living and an ageing population, have left the Council with substantial budget pressures.

Between 2010 and 2019, the Council has made £170m of cuts, with a further £0.451m taken as part of the 2020/21 budget. This has not been easy to do and has resulted in around 2000 less employees working at the Council. We continue to review all that we do, work hard to generate income and change the ways that the council works.

The Government's approach to public finances is likely to lead to further significant funding reductions for this council over the medium term, which we estimate will result in a funding gap of £50m between 2020/21 and 2024/25, this is before the financial implications of COVID-19 are taken into account. The likely continuing requirement and scale of budget cuts, coming on top of the money already taken from budgets since 2010, presents an ever-present and increasing challenge for the Council. In 2019/20, the council took the tough decision to increase council tax by 3.99%, which included 1% adult social care levy, to protect the delivery of essential services to the residents of Gateshead. We recognise the impact this increase will have on our residents and we'll make sure that those who need it will get extra help. Our Council Tax Support Scheme which helps over 12,000 residents on low income is there to help those most likely to be affected by the increase.

Despite these challenges, the Council continues to invest in the assets of the borough with planned capital expenditure forecast to be £388m over the five years to 2024/25. This will encourage economic and housing growth which will bring about new jobs, new homes and increase the skills of local people. This growth is essential to the wellbeing of the borough and its residents and to provide the council with the means other than service cuts to maintain a sustainable financial position.

Local authorities continue to operate in an ever-changing policy landscape, both nationally and locally. The levels of uncertainty and the impact of government decisions remain significant and challenging including Universal Credit, homelessness, increasing demand for services especially within social care, as well as the continuing uncertainty of funding from the delayed Government Spending Review, reform of Local Government funding, delays to the adult social care green paper, all set against the uncertain economic impact of Brexit and the longer-term implications of COVID-19.

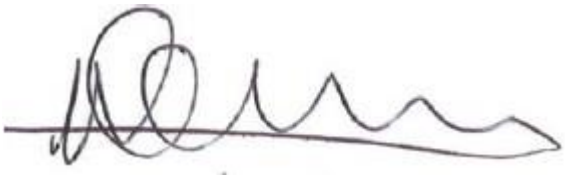
The Council has a financial plan, its Medium-Term Financial Strategy (MTFS), that supports the delivery of this strategic approach to ensure that resources are directed to council priorities. The MTFS will need to be reviewed, particularly in the light of the COVID-19 pandemic to ensure the Council continues to deliver against its priorities and sets a path for recovery and support to residents, businesses, and the economy.

Looking forward to 2020/21 the next Comprehensive Spending Review, Fair Funding Review and the review of future models of Business Rate retention have all been delayed by Government. All of these will potentially have a significant impact on the financial resources available to local authorities over the medium term.

I remain confident that we can continue to steer the council through the challenging times ahead. We will need to work with our partners, including the voluntary and community sector, to steer a way forward and deliver on our promise to create the right conditions for local people to Thrive.

An important element of this will be to review and consider how we have operated during, and our response to COVID-19. It is important to determine what has worked well and align future service delivery to this – retaining our commitment to providing support to our local communities and the most vulnerable in the borough.

What also remains is our commitment to work collaboratively and fight for a better future for Gateshead.



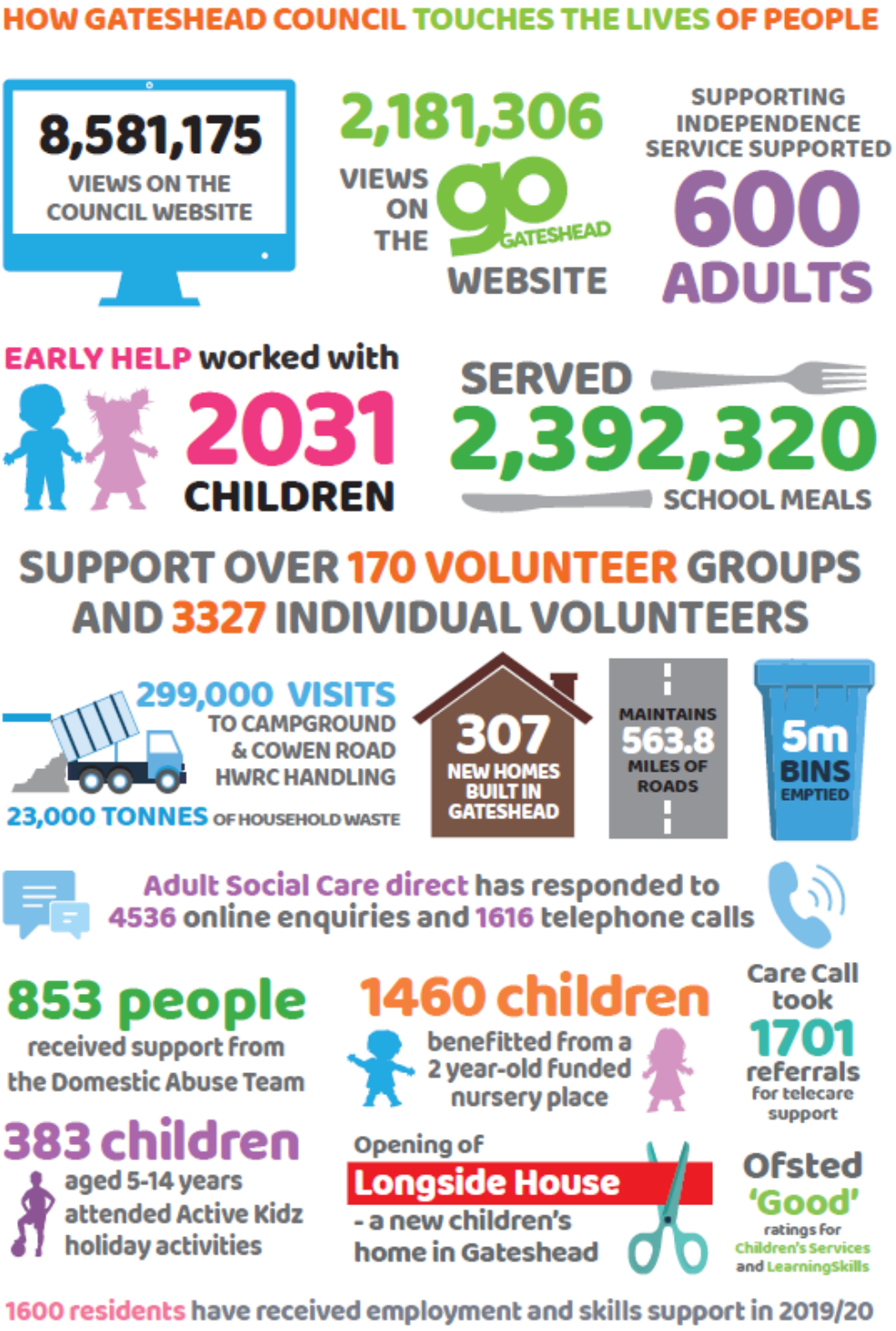
Councillor Martin Gannon

Part 1: Narrative Statement and Statement of Responsibilities

Narrative Statement

About Gateshead

- Gateshead has a population of **202,055** and covers **55** square miles, making it the largest in area of the five Tyne and Wear authorities
- The Council employs around **6,450** people (including schools staff)
- There are **94,158** households within Gateshead with **50%** owner occupied, **20%** managed on behalf of the Council by the Gateshead Housing Company, **23%** private rented and **7%** rented from a registered social landlord
- **6,737** businesses on the ratings list generated **£92.7m** in business rates in 2019/20
- **307** new homes were built in Gateshead in the last 12 months
- The Council is Corporate Parent to **414** Looked After Children and cares for **3,449** adults



Introduction

The purpose of the Narrative Statement 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 cash flow, and information on its financial needs and resources.

The Statement of Accounts which follows presents the Council's financial performance for 2019/20, 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-based Code of Practice on Local Authority Accounting in the United Kingdom (the Code), developed by the CIPFA/LASAAC Board and approved by FRAB. The Code constitutes proper accounting practice.

The Statement of Accounts presents the Council's financial statements and other financial and governance information. The Statement of Accounts also includes group information which incorporates the Council's main subsidiary, the Gateshead Housing Company (TGHC). TGHC is materially significant to the overall financial position of the Council and is therefore consolidated into the Group Financial Statements. The Council have made a judgement that all other entities are not considered to be material and therefore have not been consolidated into the Group Financial Statements.

Governance

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework. Further information is available in the Annual Governance Statement (p83-89) which was approved by the Audit and Standards Committee on 20 July 2020. The statement explains how the Council has complied with the Code and also meets the requirements of regulation 6(1) of the Accounts and Audit Regulations 2015.

Making Gateshead a Place Where Everyone Thrives

Three years ago we asked our residents, stakeholders, councilors and officers "what matters most" and we devised our Thrive agenda and its five pledges. Those pledges are more important now than ever:

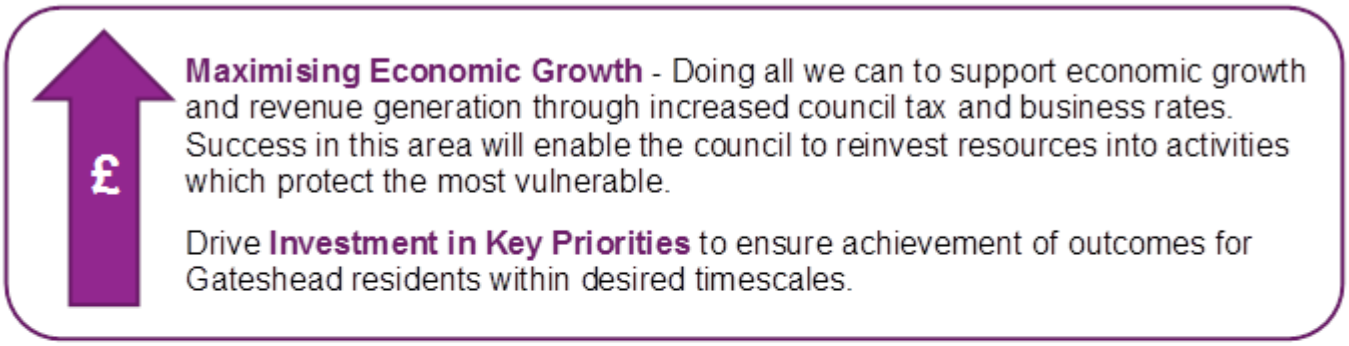
- Putting people and families at the heart of everything we do;
- Tacking inequality;
- Supporting our communities to support themselves and each other;
- Investing in our economy to provide sustainable opportunities for employment, innovation and growth; and
- Work together and fight for a better future for Gateshead

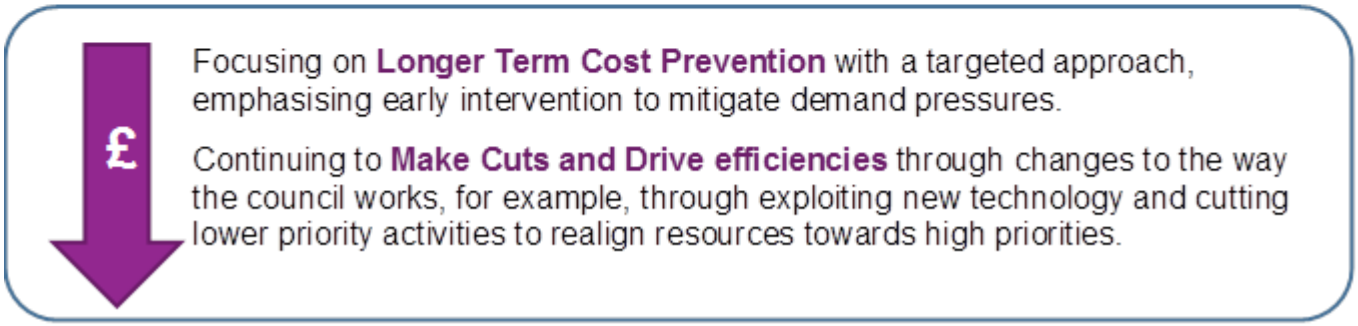
The Council, like all local authorities, continues to operate in an ever-changing policy landscape, both nationally and regionally. Councils have a unique knowledge and understanding of place and a shared focus on the wellbeing of our communities. We 'get the job done' – doing so with a unifying purpose to support and protect people and working beyond organisational boundaries. However, the levels of uncertainty and the impact of government decisions remain significant and challenging at a time when demand for support and services has never been higher. Despite this, we remain confident that we can continue to steer the council through the challenging times ahead. We will need to work with our partners, including the voluntary and community sector, to steer a way forward and deliver on our promise to create the right conditions for local people to *Thrive*.

Our approach

The Council's Medium Term Financial Strategy (MTFS) is based on a financial forecast over a rolling five-year timeframe from 2020/21 to 2024/25. The MTFS sets the financial context for the Council's resource allocation process and budget setting.

Over the five-year period there is an estimated funding gap of £50m. Within this financial context the budget process has been built upon council wide working to deliver a sustainable long-term financial position:





MTFS executive summary

The Council is facing unprecedented financial and demand pressures following a decade of austerity. Achieving financial sustainability is critical to protect outcomes for the community and local economy. Medium-term financial planning is taking place against the background of significant funding cuts for local government alongside Government plans for major local government finance reforms. In addition, the Council, in common with most local authorities, continues to be at risk from unfunded financial pressures, including workforce management, waste management, and demand for social care and welfare reform as well as implementation of the national living wage. This environment, compounded by the COVID-19 pandemic, will challenge the ability of the Council to respond to the needs of Gateshead residents and the wider community.

The UK's vote to leave the European Union (EU) and the current uncertainty during the transition period to December 2020 is likely to herald a degree of continued instability in the short to medium-term and the consequences are still to be understood over the MTFS period.

At a local level, there are changes in Gateshead's demography with an increasing population and a growing number of our most vulnerable residents requiring complex health and social care support. Within the borough there remain areas of high deprivation with issues of health inequalities and child poverty. The Council recognises the importance of increasing Gateshead's prosperity; encouraging housing and business growth, as well as revitalising our economy and job opportunities, so that ultimately people's standards of living will improve

The Council will review its MTFS and strategic objectives in recognition of the impact of the pandemic. The crisis has meant that the Council has had to review its business critical activities alongside a structural review of Revenue and Capital budgets.

Further details can be found in the MTFS which will be reported to Cabinet in October 2020.

Achievements in 2019/20

While efforts are currently focused on supporting residents and businesses through the COVID-19 pandemic, the Council must still take time to reflect on the achievements over the last financial year. Over the last 12 months the Council has continued to place its residents at the heart of everything it does, as we work towards making Gateshead a place where everyone can thrive. The following are just some of our achievements:

- ✔ Children in Gateshead benefited from a summer holiday activity programme. This offered a range of activities and events including sport and art, to help engage young people and keep them active during the long summer break. The scheme also provided over 8,500 free meals to ensure no child went hungry during the holidays. The Council secured more than £200,000 from the Government to develop the scheme, which took place at 19 venues across Gateshead. The activities were very popular, attracting hundreds of children daily from across Gateshead.
- ✔ The number of eligible 2-year olds accessing their free early learning place has increased, with Gateshead successfully having the 15th highest take up of 152 local authorities in England. This means more parents have access to support to enable them to work or study with help towards childcare costs.

- We have opened Longside House, a new children's home, with plans for a further three to enable more of our looked after children to live within the borough.
- The Troubled Families Programme between 2016-20 has achieved 100% of target outcomes for 1,930 local families against a national average of 86%.
- We are helping to improve the environment by reducing carbon emissions from Council activities. Actual greenhouse gas emissions from Gateshead Council operations are 13.2% lower than last year, and 52.2% lower than in 2007/08.
- Gateshead Council's school catering service was singled out for the fourth year running by APSE as the UK's top performing school meals provider. Gateshead was ranked first for quality, cost and productivity after being compared with 50 other UK school meals providers.
- Improvements to the GO Gateshead leisure offer has increased membership to 10,000, which is supporting local people to become more active and healthier.
- As part of GO Gateshead's commitment to providing exceptional sports provision for residents, brand-new facilities were opened at Blaydon Leisure and Primary Care Centre and Gateshead International Stadium. New FIFA Quality Pro standard 3G football pitches are now available at both sites, while a brand-new IAAF training standard six-lane athletics track, was installed at Blaydon.
- Gateshead hosted a series of exciting sporting events. This included the inaugural Try on the Tyne duathlon, which involved 1,000 participants. The World Transplant Games saw over 3,000 competitors and spectators from across around 70 countries the world visiting and being welcomed to Gateshead. The Tour of Britain pro cycling race made its way to Gateshead for the first time in ten years. It featured 120 of the world's top cyclists compete in the fourth stage of the event with 5,000 watching the start and many more along the route including over 3,500 local school children. These were very successful and helped to attract visitors to the area as well as build our sporting reputation.
- Gateshead Archive opened at Gateshead Central Library offerings visitors an exciting new way to view the unique local history collection held by the Council. Gateshead Archive showcases thousands of local history books, historic maps, photos and newspapers alongside displays, touchscreen terminals and study space. The Council secured £499,200 of funding from the National Lottery Heritage Fund to create the Gateshead Archive.
- Children's Services rated Good by Ofsted - recognising that children and young people are at the heart of the Council's decision-making process and that children receive excellent services from highly skilled and committed staff who are aspirational for our children.
- The LearningSkills service were rated Good following an Ofsted Inspection. This looked at adult education including provision for people with learning difficulties and/or disabilities; study programmes and traineeships as well as apprenticeships for young people. Ofsted said that adult learners and apprentices in Gateshead are benefiting from a very good service from learning and skills tutors who are committed to improving the lives of the people of Gateshead.
- PROTO, the new Emerging Technology Centre has won the national CABE Built Environment Award 2019 in the Extension category.
- Land of Oak and Iron Heritage Centre, which enables visitors to find out about the history of the area before setting off on a walk, won the national CABE Built Environment Award 2019 in the New Built Award category and was highly commended in the Sustainability Award category.
- Saltwell Park can still boast of being one of the best parks in the UK after retaining its Green Flag for yet another year - but this year it has been joined by another park. Chase Park in Whickham has also been singled out for the prestigious Green Flag Award. The international award which is now in its third decade is a sign to the public that the space boasts the highest environmental standards, is well maintained and has excellent visitor facilities.
- There were over 300 new homes built in Gateshead in 2019/20, of which 89 were affordable, supporting more local residents to access the property ladder.
- Our Economic Development team have worked hard to attract and secure £29.8m new business investment within the borough. In addition, over 1,000 new jobs created and safeguarded, with 22 inward investment projects attracted in 2019/20.
- Residents in Beacon Lough East are benefitting from £2.1m of National Lottery funding to help their community thrive. The funding is being used to fund a five-year scheme which will see partners work with residents to redesign and refurbish a community building. Funding includes £160,000 from Gateshead Council plus officer resources worth a further £910,000, as well as £221,754 committed by Northumbria Police, Newcastle Gateshead CCG and Citizens Advice Gateshead.

Further information on the Council's performance and key indicators can be found on the performance section of the Council's website. The year-end assessment of performance and delivery will be reported to Cabinet in late 2020.

Financial Performance

The Council classifies its expenditure and income as:

Revenue: relates to the purchase of goods and services that are used 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

The following sections discuss the Council's revenue and capital income and expenditure during 2019/20; note that the information below presents the Council's position only, rather than that of the group, as the wider group position is of lesser relevance to local taxpayers and other interested parties.

Financials at a glance

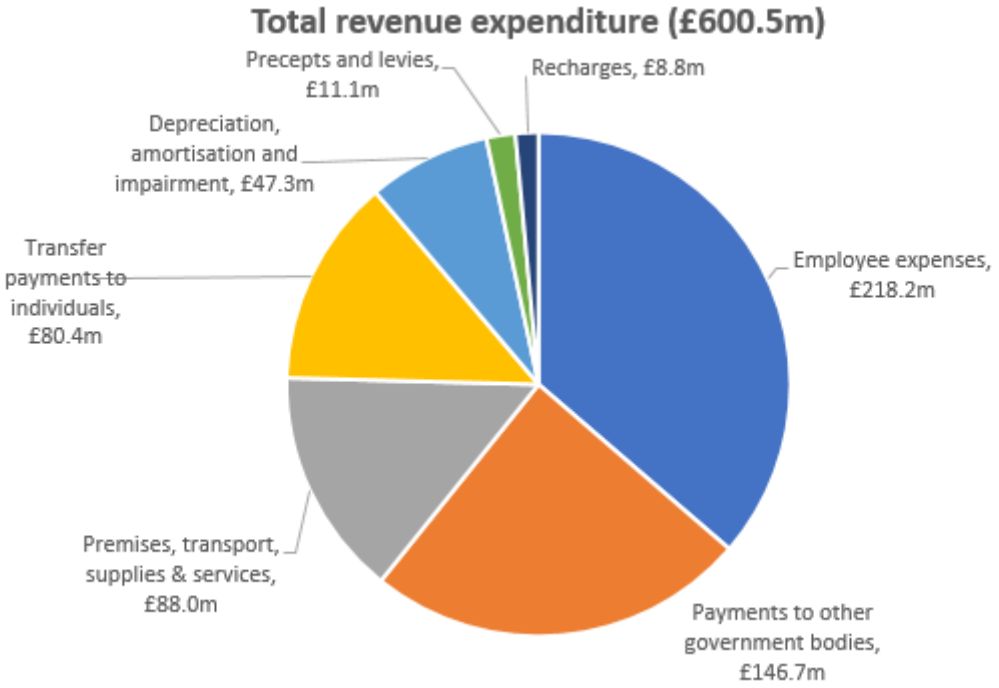
The Council continues to face a number of financial challenges including:

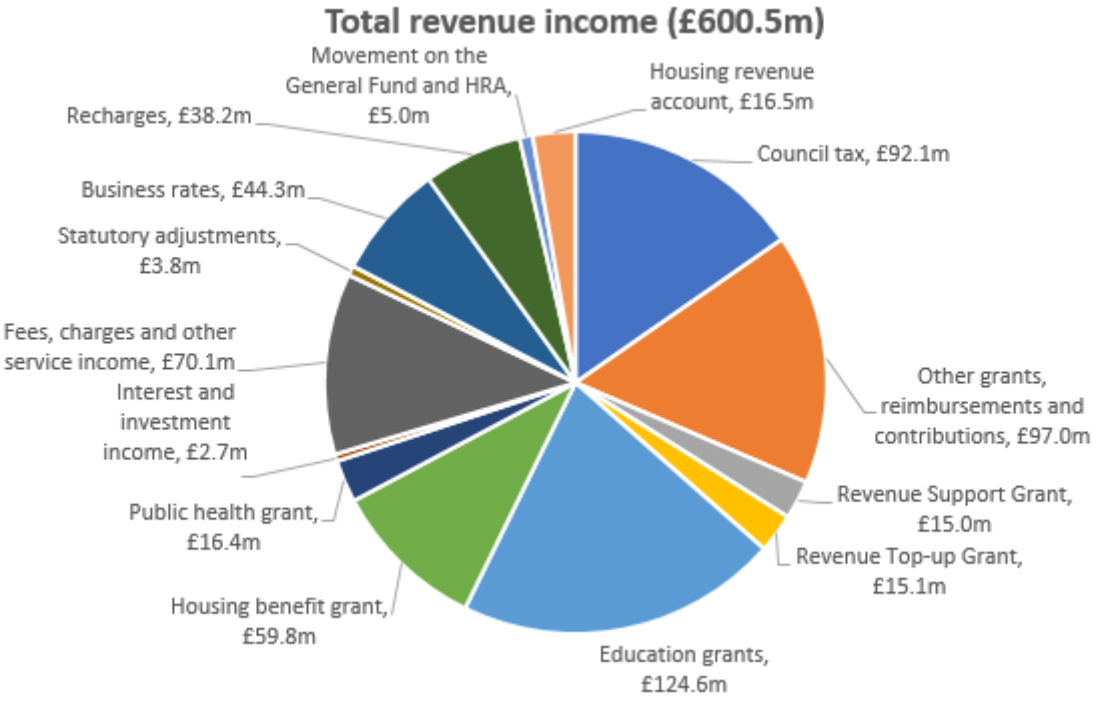
- Council funding continues to diminish resulting in enormous financial pressures at a time when demand for important services increases.
- Funding estimated to be received from the Government and from council tax and business rate payers over the next five years is not sufficient to cover the current level of spend plus new budget pressures. It is estimated that even before the impacts of COVID-19 are quantified, the Council will need to close a financial gap of £50m between 2020/21 and 2024/25;
- Gateshead is ranked the 47th most deprived out of 317 local authorities in England and within Gateshead there are 21 areas which fall within the 10% most deprived areas in England. This has worsened from 73rd out of 326 since 2015. The Council recognises the importance of increasing Gateshead's prosperity so that ultimately people's standards of living will improve;
- Population projections from the Office for National Statistics state that Gateshead's population is projected to increase to approximately 204,200 and see an increase of 21% in people aged 65 or older by 2043. This will put more pressure on the Council's social care services and as a result the cost of social care is likely to rise substantially unless there are a change to service models;
- The UK's decision to leave the EU and the transition period to December 2020 has created uncertainty and the consequences of this are yet to be fully understood.
- The Medium-Term Financial Strategy is refreshed annually; however, the environment of uncertainty will continue to make medium to long-term planning extremely challenging; and
- The COVID-19 pandemic impacted at the very end of the 2019/20 financial year and therefore the full impact is not reflected in these statement of accounts. It is not possible to quantify the full impact of the pandemic with any certainty at this stage, however the Council is expecting significant challenges ahead as it deals with the longer-term implications of the pandemic and what this might mean for residents, businesses and the local economy. The Council is currently preparing a recovery plan and the financial implications will be considered as part of the review of the Medium Term Financial Strategy.

Revenue Income and Expenditure Summary

This section offers a summary of the income and expenditure presented within the Movement in Reserves Statement (page 21), the Comprehensive Income and Expenditure Statement (page 22) and the Housing Revenue Account (HRA) statement (page 76). The information reconciles to the net movement in the General Fund, which includes the General Reserve and Local Management of Schools (LMS) reserve, and HRA reserves.

The following charts summarise the services on which money was spent and how this was funded – including General Fund, HRA (including movements in these reserves), capital grants and statutory adjustments contained within the above statements:





Position against Revenue Budget

The Council's Revenue Budget is prepared on a different basis to the Statement of Accounts (which must comply with international accounting rules)[1]. The Revenue Outturn position compared to Budget is reported to Cabinet and Council.

The key outcomes for the year are as follows:

- Council agreed the original revenue budget for 2019/20 on 21 February 2019. This was set at £206.999m. This was subsequently revised to £207.262m on 20 November 2019 following the receipt of additional funding of £0.263m
- The actual net expenditure before financing, following a movement in earmarked reserves of £2.997m was £203.432m. The Council also budgeted for the use of £0.943m earmarked reserves and received additional funding of £0.3m resulting in an overall council surplus of £4.130m.
- Service net expenditure was £207.325m, an underspend of £0.237m against service budgets, this together with a one off VAT refund of £3.893m resulted in a council surplus of £4.130m.
- There was a £7.593m transfer to reserves related to the receipt of the COVID-19 grant funding during 2019/20 which is to be carried forward and used to fund expenditure incurred in 2020/21.
- Despite an overall surplus the general fund balance decreased by £3.749m when compared to the 2018/19. The closing position is after a strategic review of the reserves which is set out in further detail in the notes to the statement. The closing balance on the general fund reserve is £11.058m which equates to 5% of the 2021/22 net revenue budget.
- As a result of outturn earmarked reserves increased by £11.543m to £43.391m
- There was a decrease in the ringfenced LMS Reserve (schools) of £0.770m to £5.479m.

Further details can be found in the Council's Revenue Outturn which was reported to Cabinet on 23 June 2020. The following shows the Council's spend against Budget for 2019/20[2]:

	Revised Budget £000's	Outturn Before Reserves £'000s	Use of Reserves £000's	Outturn £000's	Budget Variance £000's
Children, Adults and Families	107,507	111,451	173	111,624	4,116
Public Health and Wellbeing	19,941	20,857	(812)	20,045	104
Housing, Environment & Healthy Communities	20,140	22,276	(1,550)	20,726	586
Economy, Innovation and Growth	(76)	(299)	(235)	(534)	(458)
Office of the Chief Executive	1,021	1,026	(105)	921	(100)
Corporate Services & Governance	5,570	5,623	(100)	5,523	(47)
Resources and Digital	9,460	10,068	(753)	9,315	(145)
Net service expenditure	**163,563**	**171,002**	**(3,382)**	**167,620**	**4,057**
Other Services & Contingencies	6,250	4,811	385	5,196	(1,054)
Capital Financing Costs	32,000	30,262	0	30,262	(1,738)
Traded & Investment Income	(3,836)	(5,120)	0	(5,120)	(1,284)
Expenditure passed outside General Fund	(1,855)	(1,770)	0	(1,770)	85
Levies	11,140	11,137	0	11,137	(3)
Net spend before financing	**207,262**	**210,322**	**(2,997)**	**207,325**	**63**
Settlement Funding Assessment (SFA)	(71,825)	(72,125)	0	(72,125)	(300)
Other Grants	(25,126)	(32,719)	7,593	(25,126)	0
Public Health	(16,080)	(16,080)	0	(16,080)	0
Council Tax	(91,319)	(91,319)	0	(91,319)	0
Collection Fund (Council Tax)	(1,968)	(1,968)	0	(1,968)	0
Earmarked Reserves	(943)	0	(943)	(943)	0
Financing	**(207,262)**	**(214,212)**	**6,650**	**(207,562)**	**(300)**
Service Net (under) / over spend	**0**	**(3,890)**	**3,653**	**(237)**	**(237)**
One Off VAT Refund				**(3,893)**	**(3,893)**
Total Net (under) / over spend				**(4,130)**	**(4,130)**
General Reserve – opening balance				**14,807**	
2019/20 underspend				4,130	
Strategic Review Adjustment				(7,879)	
General Reserve – closing balance				**11,058**	

[1] Note 8 *Expenditure and Funding Analysis* provides a reconciliation between the revenue outturn position reported internally and the cost of services in the Comprehensive Income and Expenditure Statement.

[2] Note that this excludes schools and HRA

Capital income and expenditure summary

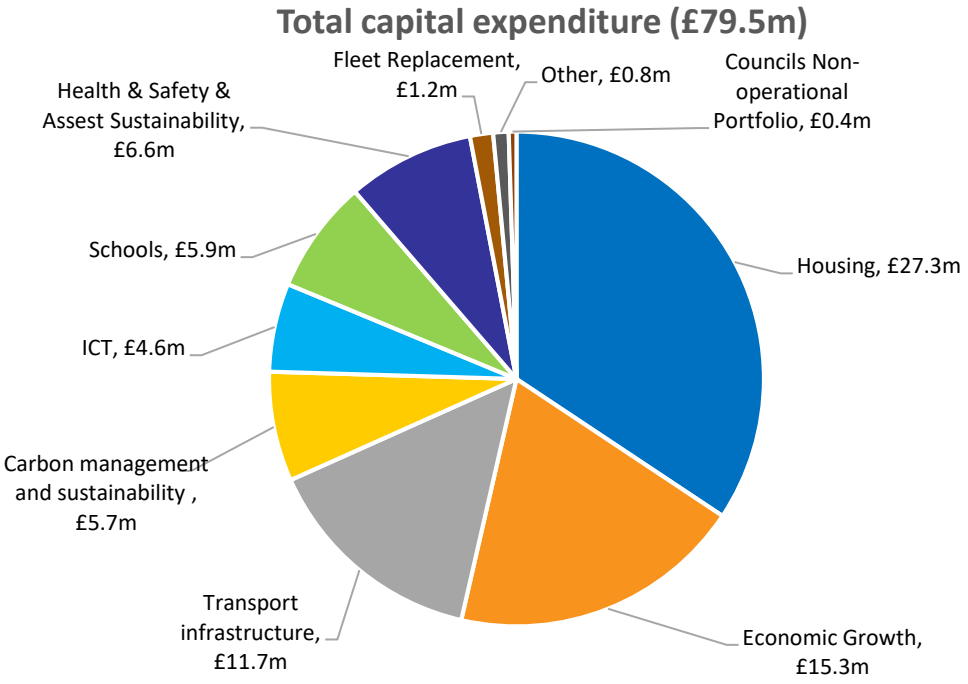
In 2019/20, the Council spent £79.5m on capital schemes (2018/19: £89.6m), with capital investment focused on the delivery of Council priorities. A number of schemes were supported during the year, with particular emphasis on housing, economic growth, energy efficiency and sustainability projects.

Actual capital expenditure for the year on the Council's non-current assets totalled £67.7m (2018/19: £66.3m). This expenditure was invested in the purchase and improvement of the Council's assets such as housing, schools and transport infrastructure.

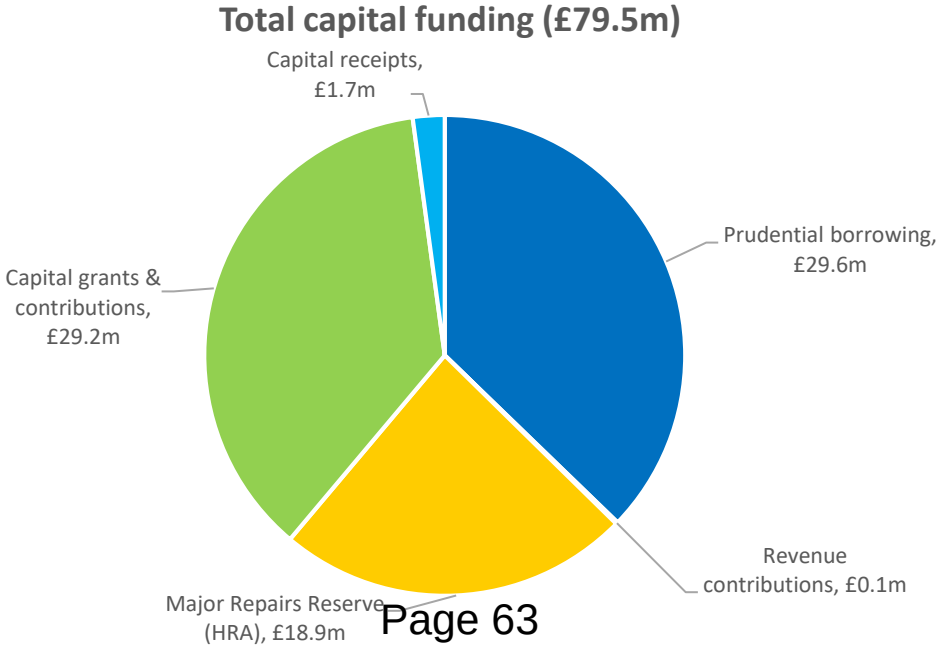
In addition, the Council spent a further £11.8m (2018/19: £23.3m) on schemes where no asset of the Council was created. This includes:

- the award of capital loans to facilitate the development of affordable housing within Gateshead;
- the award of a grant to support the East extension of the District Energy Company;
- the award of disabled facilities grants to individuals.

The following chart indicates the breakdown of capital expenditure across the Council:

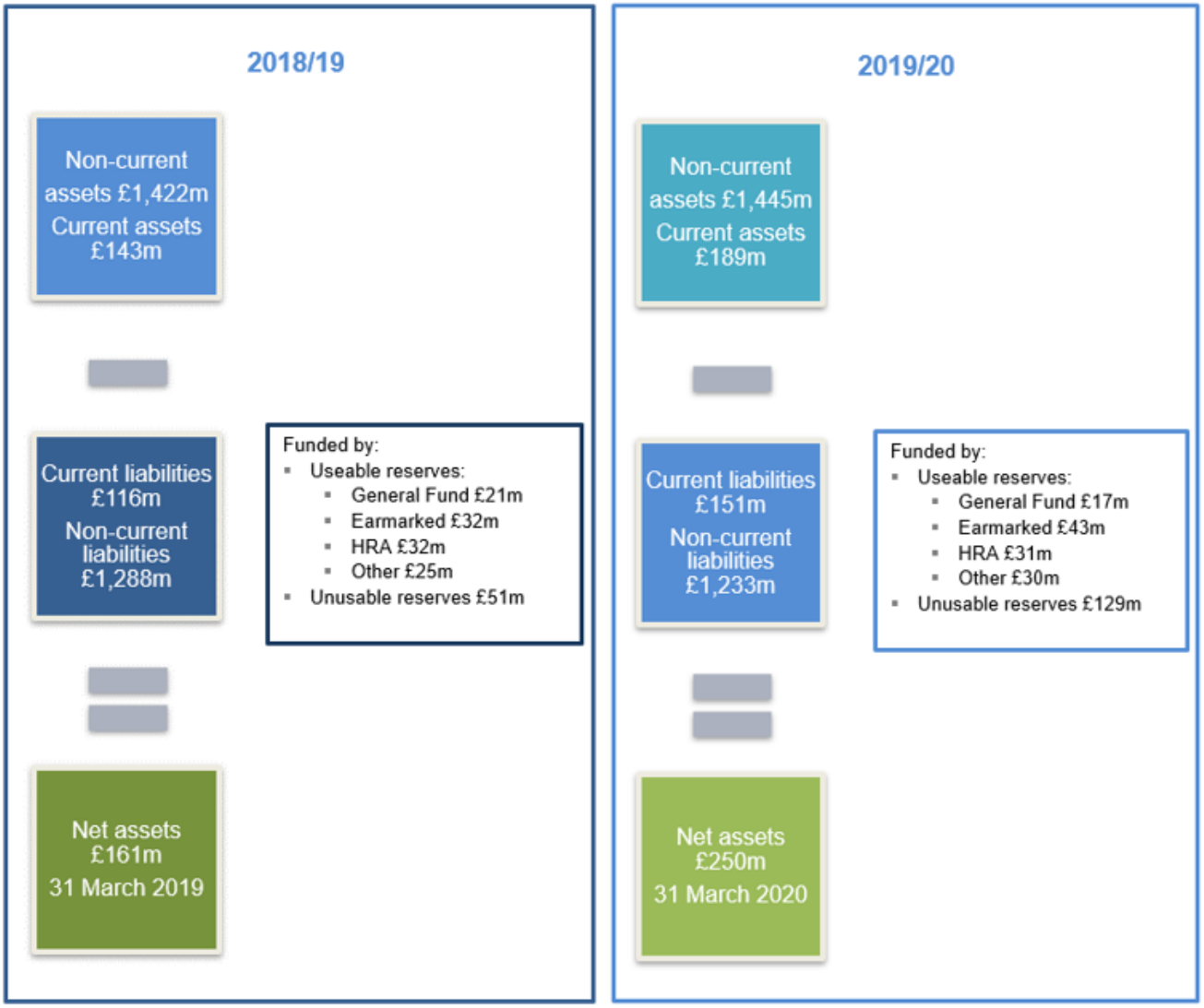


The use of available external capital resources and capital receipts was maximised, ensuring that the Council did not lose any of the external funding that had been awarded. The following chart indicates how the Council funded its capital investment:



Balance sheet summary

Despite the financial challenges the Council is facing it continued to maintain a robust balance sheet:



Other Key Items in 2019/20

Senior Management Restructure

It is important for any organisation to ensure that its management structure is kept under review. This is increasingly important in local government to ensure that the services we deliver accurately reflect the changing operating context, and the priorities that drive the organisation. This is essential if we want to respond effectively to national and local policy and most importantly to the changing needs of the people of Gateshead. To reflect this dynamic environment, on 15 October 2019 Cabinet agreed a revised senior management structure for the Council, to enable continued improvement in the co-ordination of Council functions, the organisation of its employees, and to enable Council services to focus on delivery of the Thrive agenda in a more efficient and effective way.

Material assets and liabilities: changes in 2019/20

As at 31 March 2020, the Council held £1,444.9m of non-current assets, £189.5m of current assets, £151.5m of current liabilities and £1,232.9m of non-current liabilities.

Non-current assets have increased by £23.182m, primarily due to increase in the value of the Council's asset portfolio.

Current assets have increased by £46.2m, which includes the following significant items:

- A decrease of £16.6m in short-term investments due to investment management activities – these result in movements between short-term investments, long-term investments and cash;
- Changes in the values of short-term debtors, assets held for sale and inventory levels resulted in an increase of £11.3m; and

- A £51.5m increase in cash and cash equivalents.

The Council's current liabilities have increased by £35.3m, which includes the following:

- Cash and cash equivalents (overdrafts) have increased by £6.5m;
- Short-term borrowing has increased by £24.5m, reflecting the maturity profile of borrowing and use of prudential borrowing for the capital programme; and
- An increase of £4.9m in short-term creditors due to fluctuations in the amounts owed by public bodies.

Non-current liabilities have decreased by £55.1m, mainly reflecting a decrease in pension liabilities of £53.1m, an increase in provisions of £1.6m and a decrease of £3.1m in long-term creditors.

Workforce management and exit packages

The 2019/20 Statement of Accounts recognises a cost of £1.2m in relation to actual redundancies and other terminations in 2019/20, including expected redundancies in 2020/21. This includes 10 compulsory redundancies (15 in 2018/19), 28 voluntary redundancies (46 in 2018/19) and 2 other terminations (2 in 2018/19).
This cost includes redundancy payments to employees and strain on the fund costs payable to the relevant pension fund.

The total cost of redundancy in 2019/20 totalled £2.3m. £1.4m of this expenditure was funded from a balance sheet provision and recognised in 2018/19, with the remaining expenditure of £0.9m being funded from revenue. In addition, as part of the 2019/20 revenue outturn funds were set aside to create a provision of £0.8m for redundancies in 2020/21.

Trade Union (Facility Time Publication Requirements)

The Trade Union (Facility Time Publication Requirements) Regulations 2017 came into effect on 1 April 2017. The 2017 regulations apply to police, fire & rescue, health and local government bodies with at least 49 employees for seven months within the reporting period. Bodies should publish the information required by the 2017 regulations on their website by 31 July each year. A copy of the Council's information is available online.

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

The net future pension liabilities in the Council's share of the relevant pension funds has been assessed by an independent actuary as £532.7m (from £585.7m in 2018/19). The deficit on the Fund decreased by £53m. The Tyne and Wear Pension Fund is revalued every three years by an independent actuary to set future contribution rates. The most recent valuation, as at March 2019, assessed the funding value as 106%. Note 25 to the core financial statements provides further details of the Council's pension disclosures.

The deficit at 31 March 2020 takes into account the national judgements on McCloud / Sergeant, and Guaranteed Minimum Pensions (GMP).

Council's borrowing position

The Budget and Council Tax Level Report, approved by Council on 21 February 2019, details the 2019/20 borrowing limits for the Council.

The specific borrowing limits set relate to two of the prudential indicators that are required under the Prudential Code. The Council is required to set borrowing limits for the following three financial years. The limits for 2019/20 were as follows:

- Authorised limit for external debt of £890m
- Operational boundary for external debt of £865m

As part of the Council's Treasury Management operation, these indicators are monitored on a daily basis, and neither was exceeded during 2019/20. The highest level of external debt incurred by the Council during the year was £694.73m.

Significant Issues for 2020/21 and Beyond

Government Funding

The Council accepted the government's offer of a multi-year settlement and 2019/20 is the final year under this arrangement. On 6 February the council received a one-year financial settlement for 2020/21.

The chancellor announced on 24 March that the comprehensive spending review would be delayed from July to enable the government to focus on responding to the pandemic emergency. The original plan was for the spending review to set out three years revenue and four-year capital plans, however another one year settlement now looks likely.

On 28 April 2020, the government announced that the Review of Relative Needs and Resources (Fair Funding Review) and the move to 75% business rates retention will no longer be implemented in 2021/22. The announcement also explained that the government will continue to work with councils on the best approach to 2020/21, including how to treat accumulated business rates growth and the approach to the 2021/22 local government finance settlement.

On 6 May 2020, the Ministry of Housing, Communities & Local Government announced that the revaluation of business rates, due to take place in April 2021, will no longer take place. The government announced at the same time that it is continuing work on the fundamental review of business rates, though it did not indicate if the planned publication of the results of the review in Autumn 2020 would be put back.

The current MTFS outlines a funding gap of £50m over the next 5 years, with £16m financial gap in 2021. These estimates were prepared prior to COVID-19 and therefore must be revisited particularly to assess the impact in relation to council tax and business rate funding. The MTFS 2021/22 to 2025/26 will be reported to Cabinet in October in line with last year's reporting.

Due to proposed funding reforms for local government and the imminent Spending Review, there is no certainty of funding levels beyond 2019/20 and an absence of guidance in this area.

It is vital that any future funding approach for local government is fair and provides recognition of the support required in those areas of greatest need. Government must consider the impacts of their policy decisions and the level of statutory duties at a time of significantly reducing funding. The Council has submitted responses to consultation on this issue.

Revenue budget 2020/21

Council agreed the revenue budget for 2020/21 at its meeting on 27 February 2020. This was set at £220.761m (excluding schools) and included £0.451m in savings.

The budget focusses on investment and provides a longer-term approach to financial planning and investment in core priority areas of Economy, Health and Housing, Poverty and Inequality, Climate Change, and Transport.

Capital Programme 2020/21

On 27 February 2020, the Council approved a capital programme of £110.475m for 2020/21, which included £23.221m of planned HRA capital investment. Capital investment can have a significant impact on the local economy within Gateshead to help people thrive with investment in schemes to encourage economic and housing growth over the period.

Budget Review – COVID-19 Impacts

Prior to the pandemic the proposed budget framework outlined in the February report to Cabinet and Council was for each group to consider a five year plan, alongside potential areas of recommissioning. In light of the impacts of the pandemic and restrictions it will be necessary to revisit the plans for the 2020/21 budget and beyond, building on this existing work. This work was reported into Cabinet in September 2020.

Economic Growth

On 2 June 2015, Cabinet approved the appointment of a development partner for NewcastleGateshead Quays, which will assist with major regeneration plans, business rates growth and the region's economic recovery following the COVID-19 pandemic. The Council and its Development Partners ASK and Patrizia UK have been progressing the necessary pre-construction work for a major development at NewcastleGateshead Quays, which includes an Arena and International Conference and Exhibition Centre (CEC) along with a dual branded hotel and complementary leisure units.

The planning application has been submitted, building contractor engaged (Sir Robert McAlpine) and operators have been secured for the Arena CEC (ASM Global) and the Hotel (Accor, managed by Vine Hotels). Discussions are ongoing with potential investors to ensure a commercially viable, thriving and sustainable scheme can be delivered.

Construction is expected to commence in the 2020/21 financial year and is anticipated to open in 2023, helping to generate significant economic growth and act as a catalyst for further development. The scheme is projected to deliver a £60m boost annually to the local economy, supporting over 2,000 jobs (including the construction phase) and attracting 800,000 visitors to the region annually helping to strengthen NewcastleGateshead's position as a world class location for events and business activity.

Welfare reform

The Government's welfare reform agenda, including the further roll out of Universal Credit (UC), continues to have a detrimental impact on bad debt in relation to council tax and rent collection as the natural migration of claims continues. COVID-19 has resulted in a significant increase in the number of people migrating naturally to Universal Credit.

The next stage of UC is the managed migration of any remaining claimants of Housing Benefit and other benefits onto the UC system. There was some small-scale testing of this process which started in July 2019, but this has now been suspended to allow the government to concentrate on the unprecedented number of new Universal Credit claims during the current crisis. It is now unlikely that managed migration will start in November 2020 as planned. There is no change to the proposed completion date of September 2024 at present.

There has been a significant increase in new claims to Council Tax Support which will increase the overall cost of the scheme and demands on Discretionary Housing Payments (DHP) are also expected to rise.

In addition, there could be wider financial implications due to increased demand for Council welfare services as a result of the Government's changes and the COVID-19 pandemic.

EU Exit

There is still uncertainty about the UK's departure from the European Union. At the current time it is not possible to predict the agreement that will be reached by December 2020, the end of the transition period. The potential implications will be kept under constant review.

COVID-19

The additional costs of COVID-19 have not had a material effect on the outturn for 2019/20 as the pandemic did not impact until the final few weeks of the financial year. However, the implications of estimated additional expenditure and estimated lost income going forward may have a significant impact on the Council's financial sustainability. A report to Cabinet on 23 June outlined the Council's response to the pandemic, including the financial update, the wider implications, and the steps towards recovery. Further details on the Council's recovery was reported to Cabinet in July 2020.

This is not a short-term crisis, there is the possibility of further epidemic waves and therefore emergency measures may continue for some time. Actions taken can have a local as well as wider economic impacts which will need to be constantly monitored and assessed. It is very difficult to accurately project the financial impact on the Council's future budgets due to the uncertainties about the timescales of the lifting of COVID-19 restrictions and what this might mean for Council services, the ongoing impact on businesses, the ongoing needs of residents, and the continued uncertainty surrounding government funding, not only in relation to the pandemic, but also longer-term sustainable funding for local government. The need for effective financial management has never been greater.

Housing Compliance

On 24 April 2019 the Council was issued with a Regulatory Notice from the Regulator of Social Housing outlining a breach of the Home standard. On 29 November 2019 the Council entered into a voluntary undertaking outlining the commitment to resolve the compliance issues raised and deliver better outcomes for residents. The Council continues to work with the Regulator and monitor the delivery of the outcomes set out in the voluntary undertaking.

Housing Review

On 24 March 2020 Cabinet agreed to begin consultation on the re-integration of the management and maintenance of the Council's housing stock within the Council. This will include a review of all services currently provided by The Gateshead Housing Company and include relevant Council services to ensure the most efficient and effective delivery model.

A clear vision and business plan informed by the consultation will be developed to ensure the Housing Revenue Account is sustainable over the long term.

Strategic Risks for 2020/21

The strategic risk review process is undertaken periodically across all Groups to ensure that the strategic risk management framework is relevant and robust in the context of mitigating risks to the Council's key corporate objectives.

Updates to the Strategic Risk Register are presented quarterly to Audit and Standards Committee. The register contains details of existing and planned controls to mitigate the risks identified.

The Council's key strategic risks are:

- Failure to address the financial gap in the Council's budget.
- Failure to manage demand and expectations could result in the Council not achieving its Thrive agenda.
- Failure to safeguard vulnerable children and adults.
- Failure to address workforce planning and resourcing requirements impacting on service delivery.
- Failure to attract inward investment and deliver sustainable economic growth
- Non-compliance with statutory requirements.
- Failure to provide a response during a Major incident (e.g. COVID-19 pandemic) or business interruption.
- The implications of EU Exit potentially affecting the availability of Council's resources to deliver services which may impact on communities.
- The Council is hit by a Cyber-attack that compromises the confidentiality, integrity and availability of information and systems.
- Failure to act on Climate Change and reduce adverse impacts on residents.

The Statement of Accounts

The Statement of Accounts is set out on pages 20 to 74. The Statement covers the financial year from 1 April 2019 to 31 March 2020, with comparative figures included for previous periods where appropriate. The accounts consist of the following statements that are required to be prepared under the Code:

Statement of Responsibilities (p19) explains both the Council's and the Strategic Director, Resources and Digital responsibilities in respect of the Statement of Accounts.

Core Financial Statements (pages 20 to 74):

Movement in Reserves Statement (p21) shows the movement in the year across the different reserves held by the Council and the wider group, which includes the Gateshead Housing Company (TGHC). This is 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 (p22) 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 Council's internal management structure as reported to Cabinet. The group position is presented separately on page 23.

Balance Sheet (p24) shows both the Council's and the wider group'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 (p25) summarises the cash and cash equivalent receipts and payments of the Council and Group arising from transactions with third parties.

Notes to the Core Financial Statements (p27) provide additional information for significant items to support the core statements above. Where group transactions are significant, these are separately disclosed.

Supplementary Financial Statements (pages 75 to 81):

Housing Revenue Account (HRA)

- **HRA Income and Expenditure Statement (p76)** covers the provision and maintenance of the Council's housing stock. There is a statutory requirement to produce this account, which separates housing from all other Council services.
- **Statement of Movement on the HRA Balance (p76)** 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 (p77)** provide additional information to support the HRA

statements.

Collection Fund

- **The Collection Fund Statement (p80)** - the Council is required to maintain a Collection Fund, which shows the transactions of the Council in relation to business 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 (p81)** provide additional information to support the Collection Fund Statement.

Documents Supporting the Statement of Accounts

Annual Governance Statement (p83), required by regulations to accompany the Statement of Accounts, outlines the Council's approach to corporate governance and internal control.

Independent Auditor's Report (p90) details the basis of the external auditor's opinion on the Statement of Accounts.

Glossary of Terms (p91) includes a description of the key terms used in the Statement of Accounts, along with explanations of any technical terms.

Contacts (p98) includes a list of key contacts regarding the Statement of Accounts.

Darren Collins
Strategic Director, Resources and Digital & Borough Treasurer

Statement of Responsibilities

The Council and Group's Responsibilities

The Council and Group are 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, Resources and Digital;
- 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, Resources and Digital Responsibilities

The Strategic Director, Resources and Digital is responsible for the preparation of the Council and the Group'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, Resources and Digital has:

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

The Strategic Director, Resources and Digital 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 2020, required by the Accounts and Audit Regulations 2015 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 and Group at 31 March 2020 and of its income and expenditure for the year ended 31 March 2020.

Signed: Date: 2 November 2020

Darren Collins
Strategic Director, Resources and Digital & Borough Treasurer

Part 2: Core Financial Statements

Please note that the core financial statements and notes include Gateshead Council's single entity accounts and, wherever significant, group accounts for both Gateshead Council and the Gateshead Housing Company, a wholly-owned subsidiary of the Council.

Movement in Reserves Statement

	Note	General Fund Balance	Earmarked GF Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Gateshead usable reserve	TGHC pension reserve	TGHC P&L reserve	Total Group useable reserves	Gateshead unusable reserves	Total Group Reserves
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance as at 31 March 2018	**6b**	**18,873**	**36,150**	**33,954**	**0**	**11,601**	**6,160**	**106,738**	**(38,090)**	**691**	**69,339**	**117,502**	**186,841**
Movement in reserves during the year													
Total comprehensive income and (expenditure)		(78,615)	0	(5,466)	0	0	0	(84,081)	0	0	(84,081)	20,692	(63,389)
Adjustments between group accounts and Gateshead Council single entity accounts		0	0	0	0	0	0	0	(8,160)	112	(8,048)	0	(8,048)
Adjustments between accounting basis and funding basis under regulations	**6a**	80,798	(4,302)	3,065	0	(1,788)	8,764	86,537	0	0	86,537	(86,537)	0
Increase or (decrease) in year		**2,183**	**(4,302)**	**(2,401)**	**0**	**(1,788)**	**8,764**	**2,456**	**(8,160)**	**112**	**(5,592)**	**(65,845)**	**(71,437)**
Balance as at 31 March 2019	**6b**	**21,056**	**31,848**	**31,553**	**0**	**9,813**	**14,924**	**109,194**	**(46,250)**	**803**	**63,747**	**51,657**	**115,404**
Movement in reserves during the year													
Total comprehensive income and (expenditure)		(12,558)	0	3,753	0	0	0	(8,805)	0	0	(8,805)	97,993	89,188
Adjustments between group accounts and Gateshead Council single entity accounts		0	0	0	0	0	0	0	(4,450)	(156)	(4,606)	0	(4,606)
Adjustments between accounting basis and funding basis under regulations	**6a**	8,039	11,543	(4,271)	0	2,220	2,842	20,373	0	0	20,373	(20,373)	0
Increase or (decrease) in year		**(4,519)**	**11,543**	**(518)**	**0**	**2,220**	**2,842**	**11,569**	**(4,450)**	**(156)**	**6,963**	**77,620**	**84,582**
Balance as at 31 March 2020	**6b**	**16,537**	**43,391**	**31,035**	**0**	**12,033**	**17,766**	**120,762**	**(50,700)**	**647**	**70,709**	**129,276**	**199,987**

Comprehensive Income and Expenditure Statement

Council position:

2018/19 (restated)				2019/20			
Gross Exp. £000s	Gross Income £000s	Net Exp. £000s	Service	Gross Exp. £000s	Gross Income £000s	Net Exp. £000s	Notes
205,012	(97,706)	107,306	Children, Adults and Families	200,113	(103,037)	97,076	
12,321	(2,572)	9,749	Corporate Services & Governance & Office of the Chief Executive	11,561	(3,358)	8,202	
57,119	(16,753)	40,366	Economy, Innovation and Growth	33,219	(15,169)	18,050	
65,782	(31,582)	34,200	Housing, Environment and Health Communities	69,292	(35,876)	33,416	
5,406	(4,825)	581	Other Corporate Income and Expenditure	10,973	(11,291)	(318)	
29,871	(22,605)	7,266	Public Health and Wellbeing	28,387	(22,862)	5,525	
97,817	(74,164)	23,653	Resources & Digital (including Housing Benefits)	87,802	(67,271)	20,531	
88,164	(87,381)	783	Schools	88,329	(89,286)	(957)	
71,637	(78,860)	(7,223)	Housing Revenue Account	62,624	(79,176)	(16,552)	
633,129	**(416,448)**	**216,681**	**Cost of services**	**592,299**	**(427,326)**	**164,974**	8
		14,269	Other operating expenditure			15,405	7b
		59,283	Financing and investment income & expenditure			40,824	7b
		(206,043)	Taxation and non-specific grant income			(212,398)	7b
		84,190	**(Surplus) or deficit on provision of services**			**8,805**	
		2,188	(Surplus) or deficit on revaluation of non-current assets			(30,245)	17
		(22,880)	Re-measurements of the net defined benefit liability			(71,630)	25
		(109)	(Surplus) or deficit on financial assets measured at fair value through other comprehensive income			3,882	26
		(20,801)	**Other comprehensive (income) and expenditure**			**(97,993)**	
		63,389	**Total comprehensive (income) and expenditure**			**(89,188)**	

* Restated due to internal restructure in 2019/20 (*also see Note 8*)

Please note all amounts included above relate to continuing operations

Group position:

2018/19 (restated*)				2019/20			
Gross Exp. £000s	Gross Income £000s	Net Exp. £000s	Service	Gross Exp. £000s	Gross Income £000s	Net Exp. £000s	Notes
204,819	(97,666)	107,153	Children, Adults and Families	199,949	(102,995)	96,954	
11,732	(1,983)	9,749	Corporate Services & Governance & Office of the Chief Executive	10,926	(2,804)	8,122	
56,968	(16,750)	40,218	Economy, Innovation and Growth	33,135	(15,085)	18,050	
64,946	(30,856)	34,090	Housing, Environment and Health Communities	66,971	(33,865)	33,106	
3,716	(3,337)	378	Other Corporate Income and Expenditure	9,644	(9,962)	(318)	
29,863	(22,597)	7,266	Public Health and Wellbeing	28,371	(22,846)	5,525	
95,084	(71,454)	23,630	Resources & Digital (including Housing Benefits)	85,819	(65,434)	20,385	
88,163	(87,381)	782	Schools	88,329	(89,286)	(957)	
85,112	(80,024)	5,088	Housing Revenue Account	68,845	(80,745)	(11,900)	
640,403	**(412,048)**	**228,356**	**Cost of services**	**591,989**	**(423,022)**	**168,967**	
		13,362	Other operating expenditure			14,967	
		60,313	Financing and investment income & expenditure			41,894	
		(206,043)	Taxation and non-specific grant income			(212,398)	7b
		95,988	**(Surplus) or deficit on provision of services**			**13,430**	
		2,188	(Surplus) or deficit on revaluation of non-current assets			(30,245)	17
		(26,630)	Re-measurements of the net defined benefit liability			(71,650)	25
		(109)	(Surplus) or deficit on financial assets measured at fair value through other comprehensive income			3,882	26
		0	Other gains/losses			0	
		(24,552)	**Other comprehensive (income) and expenditure**			**(98,013)**	
		71,437	**Total comprehensive (income) and expenditure**			**(84,583)**	

*Restated due to internal restructure in 2019/20

Please note all amounts included above relate to continuing operations

Balance Sheet

31/03/2019 £000s Group	31/03/2019 £000s Gateshead		31/03/2020 £000s Group	31/03/2020 £000s Gateshead	Notes
1,347,253	1,346,692	Property, plant & equipment	1,376,030	1,375,491	17
27,056	27,056	Heritage assets	27,152	27,152	18
1,405	1,405	Investment property	1,285	1,285	
2,203	1,926	Intangible assets	2,639	2,590	
17,477	17,477	Non-current investments	8,595	8,595	26
27,121	27,121	Non-current debtors	29,746	29,746	22
1,422,515	**1,421,677**	**Non-current assets**	**1,445,447**	**1,444,859**	
63,701	63,701	Current investments	47,144	47,144	26
955	955	Assets held for sale	8,042	8,042	
1,581	495	Inventories	1,846	619	
68,295	69,125	Current debtors	69,231	73,194	22
15,628	8,964	Cash and cash equivalents	69,466	60,490	21
150,160	**143,240**	**Current assets**	**195,729**	**189,489**	
(14,163)	(14,163)	Cash and cash equivalents	(20,615)	(20,615)	21
(42,058)	(42,058)	Current borrowing	(66,586)	(66,586)	26
(3,877)	(3,877)	Current provisions	(3,275)	(3,275)	24
(62,914)	(56,078)	Current creditors	(67,066)	(61,004)	23
(123,012)	**(116,176)**	**Current liabilities**	**(157,542)**	**(151,480)**	
(60,676)	(60,676)	Non-current creditors	(57,615)	(57,615)	23
(6,825)	(6,706)	Non-current provisions	(8,429)	(8,310)	24
(634,738)	(634,738)	Non-current borrowing	(634,184)	(634,184)	26
(632,020)	(585,770)	Pensions liability	(583,420)	(532,720)	25
(1,334,259)	**(1,287,890)**	**Non-current liabilities**	**(1,283,648)**	**(1,232,829)**	
115,404	**160,851**	**Net assets**	**199,986**	**250,039**	
		Usable reserves:			
9,813	9,813	Capital Receipts Reserve	12,033	12,033	
14,924	14,924	Capital Grants Unapplied	17,766	17,766	
14,807	14,807	General Fund - General Reserve	11,058	11,058	
6,249	6,249	General Fund - LMS Reserve	5,479	5,479	
31,553	31,553	Housing Revenue Account	31,035	31,035	
31,848	31,848	Earmarked Reserves	43,391	43,391	
803	0	Useable Reserves of Group Entities	647	0	
(46,250)	0	TGHC Pension Reserve	(50,700)	0	
63,747	**109,194**	**Total usable reserves**	**70,709**	**120,762**	6b
51,657	**51,657**	**Unusable reserves**	**129,277**	**129,277**	
115,404	**160,851**	**Total reserves**	**199,986**	**250,039**	

Signed: Date: 2 November 2020

Darren Collins
Strategic Director, Resources and Digital & Borough Treasurer

Cash Flow Statement

2018/19 £000s Group	2018/19 £000s Gateshead		2019/20 £000s Group	2019/20 £000s Gateshead
95,988	**84,190**	**Net (surplus) or deficit on the provision of services**	**13,431**	**8,805**
		Adjustments to net surplus or deficit on the provision of service for non-cash movements:		
(44,748)	(44,477)	Depreciation of non-current assets	(46,408)	(46,158)
(31,303)	(31,303)	Impairment / downward revaluation of non-current assets	(5,875)	(5,875)
(816)	(816)	Amortisation of intangible non-current assets	(1,069)	(1,069)
(51,687)	(39,800)	Pension adjustments	(23,050)	(18,580)
(151)	(151)	Increase/decrease in impairment for provision for bad debts	(2,088)	(2,088)
1,710	1,710	Contributions (to) / from provisions	(1,002)	(1,002)
(8,504)	(8,504)	Carrying amount of property, plant and equipment, investment property, assets held for sale and intangible assets sold	(8,178)	(8,178)
250	189	(Decrease)/increase in inventories	265	124
12,094	12,633	(Decrease)/increase in debtors	6,921	6,235
(985)	34	Decrease/(increase) in creditors	1,343	4,388
(15,602)	(15,602)	Decrease/(increase) in valuation of financial instruments	434	434
218	213	Other non-cash movement	9	4
(139,524)	**(125,874)**		**(78,698)**	**(71,765)**
		Adjustments for items included in the net surplus or deficit on the provision of service that are investing or financing activities:		
8,095	8,095	Proceeds from the disposal of PPE, investment property, assets held for sale and intangible assets	6,296	6,296
30,111	30,111	Capital grants credited to surplus or deficit on the provision of services	32,069	32,069
0	0	Any other items for which the cash effects are investing or financing activities	(874)	(874)
38,206	**38,206**		**37,491**	**37,491**
(5,330)	**(3,478)**	**Net cash flows from operating activities**	**(27,776)**	**(25,469)**

		Net cash flows from investing activities:		
64,959	64,880	Purchase of property, plant and equipment, investment property, assets held for sale and intangible assets	65,227	65,227
138,500	138,500	Purchase of short term and long term investments	158,000	158,000
0	0	Other payments for investing activities	331	331
(8,095)	(8,095)	Proceeds from the sale of property, plant and equipment, investment property, assets held for sale and intangible assets	(6,296)	(6,296)
(146,000)	(146,000)	Proceeds from the sale of short term and long term investments	(179,500)	(179,500)
(5)	0	Other receipts for investing activities	(5)	0
49,359	**49,285**	**Net cash flows from investing activities**	**37,757**	**37,762**
		Net cash flows from financing activities:		
(115,000)	(115,000)	Cash receipts of short and long term borrowing	(53,000)	(53,000)
3,121	3,121	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on Balance Sheet PFI contracts	2,563	2,563
(24,054)	(24,054)	Capital grants received (government)	(31,797)	(31,797)
101,474	101,474	Repayment of short and long term borrowings	28,829	28,829
(955)	(955)	Other payments/receipts for financing activities	(3,962)	(3,962)
(35,414)	**(35,414)**	**Net cash flows from financing activities**	**(57,367)**	**(57,367)**
8,615	**10,393**	**Net (increase)/ decrease in cash and cash equivalents**	**(47,386)**	**(45,074)**

10,080	**5,194**	**Cash and cash equivalents at the beginning of the period**	**1,465**	**(5,199)**
1,465	**(5,199)**	**Cash and cash equivalents at the end of the period**	**48,851**	**39,874**

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 requires that the Council prepare the Statement annually, and in accordance with proper practice (the local government Code of Practice and international accounting 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, and the accounts have been prepared on a *going concern* basis.

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:** determination as to whether lease arrangements are finance or operating leases;
- **PFI:** a determination as to whether PFI assets and liabilities are on- or off-Balance Sheet;
- **Provisions, contingent liabilities and contingent assets:** an assessment of future liabilities and assets that may constitute provisions, contingent liabilities or contingent assets;
- **Group accounts:**
  - An additional transfer of staff from the Council to The Gateshead Housing Company, a subsidiary of the Council, on 1 April 2017 resulted in a significant increase in the pension deficit. This meant the value of The Gateshead Housing Company warranted the preparation of group accounts.
  - In the event that TGHC were wound up, prior to the agreed contract-end date, the Council has guaranteed to fund the past service pension deficit. The Pension Committee agreed the Council's guarantee to fund any pension deficit arising, were the liability to fall due. Therefore, in such a case, there is no possibility of reimbursement from the other member organisations of the Tyne and Wear Pension Fund. This guarantee has been judged to be a guarantee against financial risk under IFRS 9, *Financial Instruments*. However, the likelihood of any financial risk materialising has been assessed as so low that acquiring a Fair Value has not been considered necessary.
  - The differences in accounting policies between the Council and the Gateshead Housing Company are immaterial, see note 7 for further information; and
- **Future government funding:** Council assets may be impaired as a result of the potential need to close facilities / reduce levels of service provision.

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.

The financial impact of the COVID-19 pandemic did not have a significant impact on the 2019/20 statement of accounts.

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 and other future changes

The Code requires the Council to disclose information relating to the impact of an accounting change that will be required by a new standard which has been issued but has not yet been adopted by the Code.

The new/amended standards that may affect the Statement of Accounts from 1 April 2020 and require

retrospective application are:

- Amendments to IAS 28 *Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures,*
- Amendments to IAS 19 *Employee Benefits: Plan Amendment, Curtailment or Settlement*; and
- Annual improvements to IFRS Standards 2015-2017 Cycle

These have been assessed and it is not expected that any will have a material impact. In addition to the above, IFRS 16 Leases is a new standard which replaces IAS 17 from April 2021 and establishes a new model for lessees; its impact may be material given the value of the Council's leases (see Note 11).

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 2020 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 £190.0m as at 31 March 2020; a 1% change in useful economic life would increase the accumulated depreciation on the Balance Sheet by £1.9m;
- **Revaluations:** a 1% change in asset valuation would equate to a £14.4m, which would represent a material movement - as such, this presents a significant risk of misstatement. To manage this risk, assets valued at more than £40,000 are subject to the Council's five-yearly rolling programme of revaluations. To ensure that there is no possibility of material changes in value between valuations and to provide additional assurance, the Council's housing stock and significant assets are valued every year (full details are included in Note 17), an annual review of market conditions (including reviews at the year-end) for all asset categories are undertaken to ensure that the value of assets as at 31 March is not materially misstated. In 2019/20, the Council revalued £961m of its property, plant and equipment (£1.376bn total) and a supplementary document was produced to take stock of the impact of COVID-19 on asset values; and
- **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 material. The Council also holds general and earmarked reserves that can be called upon in the event of major unexpected liabilities arising.

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 and Group's usable reserves. It also provides a summary of the movements in unusable reserves, the unusable reserves for TGHC represent pension adjustments.

The following tables provide further detail of the amounts disclosed in the Movement in Reserves Statement in relation to the Council only:

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. These adjustments are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure in accordance with proper accounting practice:

	General Fund	Earmarked reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
2019/20 movements (£000s)							
Charges for depreciation of non-current assets	31,107	0	0	15,051	0	0	* (46,158)
Impairment and revaluation losses (charged to *surplus or deficit on provision of services*) of non-current assets	6,115	0	(240)	0	0	0	* (5,875)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	(32,069)	0	0	0	0	10,101	*21,968
Net gain or loss on sale of non-current assets	2,264	0	(422)	0	6,335	0	∞ (8,178)
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	18,362	0	218	0	0	0	≠ (18,580)
Statutory provision for repayment of debt	(15,787)	0	0	0	0	0	*15,787
Capital expenditure charged to the General Fund / HRA	(124)	0	(3,827)	3,827	0	0	*124
Transfers to/from earmarked reserves	(11,543)	11,543	0	0	0	0	0
Other transfers to/from reserves required by legislation	9,713	0	(0)	(18,878)	(4,115)	(7,259)	Ω20,539
Adjustments between accounting basis and funding basis under regulations	**8,039**	**11,543**	**(4,271)**	**0**	**2,220**	**2,842**	**(20,373)**

* All charged to Capital Adjustment Account; ∞ (2,279) to Revaluation Reserve and (5,899) to Capital Adjustment Account; ≠all charged to Pension Reserve; Ω includes 21,681 to Capital Adjustment Account

2018/19 movements (£000s)							
Charges for depreciation of non-current assets	30,209	0	0	14,268	0	0	* (44,477)
Impairment and revaluation losses (charged to *surplus or deficit on provision of services*) of non-current assets	17,424	0	13,879	0	0	0	* (31,303)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	(30,111)	0	0	0	0	14,080	*16,031
Net gain or loss on sale of non-current assets	1,385	0	(976)	0	8,094	0	∞ (8,504)
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	39,629	0	170	0	0	0	≠ (39,800)
Statutory provision for repayment of debt	(14,803)	0	0	0	0	0	*14,803
Capital expenditure charged to the General Fund / HRA	(944)	0	(9,997)	9,997	0	0	*944
Transfers to/from earmarked reserves	4,301	(4,302)	0	0	0	0	0
Other transfers to/from reserves required by legislation	33,706	0	(11)	(24,265)	(9,882)	(5,316)	Ω 5,768
Adjustments between accounting basis and funding basis under regulations	**80,796**	**(4,302)**	**3,065**	**0**	**(1,787)**	**8,764**	**(86,538)**

* All charged to Capital Adjustment Account; ∞ (1,807) to Revaluation Reserve and (6,696) to Capital Adjustment Account; ≠all charged to Pension Reserve; Ω includes 18,726 to Capital Adjustment Account

b. **Reserves:** the Council maintains a number of reserves, which are classified as either usable (reserves that can be used by the Council) or unusable (notional adjustment accounts not usable by the Council). Analysis of the Council's reserves and details of any transfers to or from earmarked reserves are set out below (descriptions of each reserve are detailed below the table):

Balance 31/03/19 £000s		Transfers in £000s	Transfers out £000s	Balance 31/03/20 £000s
	Useable reserves			
	General Fund balance:			
14,807	General Reserve	15,251	(19,000)	11,058
6,249	LMS Budget Share Reserve	1,626	(2,396)	5,479
21,056	General Fund	**16,877**	**(21,396)**	**16,537**
	Earmarked General Fund reserves:			
0	Financial Risk and Resilience	16,451	(2,290)	14,161
0	Budget Sustainability	10,215	(10,215)	0
0	Economic, Housing and Environmental Investment	8,893	(489)	8,404
0	Poverty, Health and Equality Investment	7,706	(413)	7,293
3,000	Insurance	0	(3,000)	0
1,000	Grant clawback	0	(1,000)	0
6,009	Workforce development	0	(6,009)	0
1,706	Developers' contributions	465	(409)	1,762
1,115	Unapplied revenue grants	7,895	(101)	8,909
2,885	Economic growth, culture and place shaping	0	(2,885)	0
5,000	Business rates	0	(5,000)	0
2,290	Budget flexibility	0	(2,290)	0
535	Discretionary Social Fund	0	(535)	0
2,192	Public health	32	(574)	1,650
816	Dedicated Schools Grant (DSG)	396	(0)	1,212
4,206	Strategic revenue investment	0	(4,206)	0
757	Anti-poverty	0	(757)	0
337	Voluntary sector	0	(337)	0
31,848	Total earmarked General Fund reserves	**52,053**	**(40,510)**	**43,391**
31,553	Housing Revenue Account (HRA) balance	0	(518)	31,035
	Earmarked HRA reserves:			
0	Major Repairs Reserve	15,052	(15,052)	0
9,813	Capital Receipts Reserve	6,335	(4,115)	12,033
14,924	Capital Grants Unapplied	10,101	(7,259)	17,766
109,194	**Total usable reserves**	**100,418**	**(88,850)**	**120,762**
	Unusable reserves			
182,243	Revaluation Reserve	30,245	(5,400)	207,088
463,202	Capital Adjustment Account	68,839	(67,210)	464,831
(19,235)	Financial Instrument Adjustment Account	474	(41)	(18,802)
12,226	Financial Instrument Revaluation Reserve	0	(3,882)	8,344
76	Deferred Capital Receipts Reserve	0	(0)	76
2,102	Collection Fund Adjustment Account	7,735	(6,289)	3,647
(3,187)	Accumulated Absences Account	0	0	(3,187)
(585,770)	Pensions Reserve	53,050	(0)	(532,720)
51,657	**Total unusable reserves**	**155,094**	**(82,822)**	**129,277**
160,851	**Total reserves of the Council**	**255,512**	**(171,672)**	**250,039**
803	P&L Reserve - TGHC	**0**	**(156)**	647
(46,250)	Pensions Reserve - TGHC	**0**	**(4,450)**	(50,700)
115,404	**Total reserves of the Group**	**255,512**	**(176,278)**	**199,986**

Usable Reserves

As part of the 2020/21 MTFS refresh, the earmarked reserves were realigned into four strategic reserves to ensure they are used to achieve the Council's key priorities:

- Financial Risk and Resilience Reserve
- Budget Sustainability Reserve
- Economic, Housing and Environmental Reserve
- Poverty, Health and Equality Investment Reserve

As part of outturn, general fund balances and strategic earmarked reserves were reviewed and the following changes to strategic reserves were agreed by Cabinet in June 2020;

- The balance relating to workforce pressures moved into the Financial Risk and Resilience Reserve to reflect the nature of this pressure;
- The remaining balance in the Budget Sustainability Reserve (£4.206m) moved into the Poverty, Health and Equality Reserve to earmark funding of this priority area;
- The value of the VAT rebate (£3.893m) transferred from the general reserve to the Economic, Housing and Environmental Investment reserve to earmark funding for this priority area.

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[3]. 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. As part of the 2020/21 MTFS refresh and again at revenue outturn, the earmarked reserves were reviewed to ensure they are used to achieve the Council's key priorities and were realigned.

- **Financial risk and resilience**: this reserve was created to set aside funds in respect of key financial risks identified through the risk management process and the savings required as part of the Council MTFS;
- **Budget sustainability**: this reserve was realigned at revenue outturn;
- **Economic, housing and environmental investment**: this reserve was created to stimulate economic growth and to tackle environmental issues across the borough. It provides funding to support the key themes which underpin the MTFS and the Thrive agenda;
- **Poverty, health and equality investment**: this reserve was created to support the Anti-Poverty Strategy and to alleviate the impact of welfare reform and austerity on the residents of Gateshead, which is consistent with Thrive priorities;
- **Insurance:** this reserve was realigned as part of the MTFS refresh;
- **Grant clawback:** this reserve was realigned as part of the MTFS refresh;
- **Workforce development:** this reserve was realigned as part of the MTFS refresh;
- **Developers' contributions:** this reserve consists of developer contributions in respect of agreed regeneration schemes following Section 38 and 106 agreements. The movement on the reserve will fluctuate depending on the use of the contributions to support regeneration schemes such as play areas in areas of new housing;
- **Unapplied revenue grants:** this reserve was created as a result of changes to the Accounting Code of Practice whereby unused grants and contributions, without conditions attached, should be appropriated to reserves to fund future expenditure rather than creating creditors on the Balance Sheet. The reserve

[3] See www.legislation.gov.uk/ukpga/1989/42/pdfs/ukpga_19890042_en.pdf

represents an accounting treatment;

- **Economic growth, culture and place shaping:** this reserve was realigned as part of the MTFS refresh;
- **Business rates:** this reserve was realigned as part of the MTFS refresh;
- **Budget flexibility:** this reserve was realigned as part of the MTFS refresh;
- **Discretionary Social Fund:** this reserve was realigned as part of the MTFS refresh;
- **Public health:** the responsibility for Public Health transferred to local authorities on the 1 April 2013. The funding is ring-fenced for future Public Health use.
- **Dedicated schools grant (DSG)**: this reserve is ring-fenced for schools use and cannot be used for other priorities within the Council. Use of this reserve will be agreed by Schools Forum;
- **Strategic revenue investment**: this reserve was realigned as part of the MTFS refresh;
- **Anti-poverty**: this reserve was realigned as part of the MTFS refresh; and
- **Voluntary sector**: this reserve was realigned as part of the MTFS refresh.

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 use, and may be earmarked for use in the Council's capital programme.

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** (MRR) is an earmarked HRA reserve used to fund capital improvements or to repay historic debt. The minimum amount transferred to the MRR each year is equivalent to the depreciation charge. The balance shows the MRR resources 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.

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 **Financial Instruments Revaluation Reserve** contains the gains made by the Council arising from increases in the value of its investments that are measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost; or
- disposed of and the gains are realised.

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** absorbs 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 2020. 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 that benefits earned are 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. TGHC's pension reserve is shown at the bottom of the reserves table on page 30.

7. Comprehensive Income and Expenditure Statement (CIES) information

a. Key accounting policies:

Accruals of income and expenditure (Council and Group)

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract;
- Supplies are recorded as expenditure when they are consumed – where there is a difference between the date supplies are received and the date of their consumption, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest 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 income and expenditure have been recognised but cash has not been received or paid (subject to a *de minimis* threshold of £10,000 within the Council's accounts), 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.

Charges to revenue for non-current assets

Group:

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 (may also be credited with the reversal of previous years' losses); and
- amortisation of intangible assets attributable to the service.

Council Only:

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.

Value added tax (VAT) (Council and Group)

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

Council tax and business rates (Council only)

Council tax and business rates income included in the Comprehensive Income and Expenditure Statement represents the Council's share of net income collectable during the financial year. The difference between this amount and the amount required by regulation to be credited to the General Fund (i.e. the Council's demands on the Fund) is taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due will not be made (fixed or determinable payments), the asset is written down and a charge made to the Collection Fund.

b. Analysis of items below Cost of Services (Council only):

2018/19 £000s		2019/20 £000s
	Other operating expenditure	
409	(Gains) / losses on the disposal of non-current assets	1,842
	Precepts and levies:	
165	Environment Agency levy	168
21	Tyne Port Health Authority precept	20
11,037	Tyne and Wear Integrated Transport Authority levy	10,949
11	Lamesley Parish Council precept	11
2,626	Payments to the housing capital receipts pool	2,415
14,269		**15,405**
	Financing and investment income and expenditure	
44,398	Interest payable and similar charges	27,694
14,340	Net interest on defined benefit liability / (asset)	13,640
(2,345)	Interest receivable and similar income	(1,702)
2,890	(Surpluses) / deficits on trading activities	1,192
59,283		**40,824**
	Taxation and non-specific grant income	
(88,935)	Council tax income	(92,091)
(42,815)	Government grants not attributable to services	(43,963)
(30,111)	Capital grants and contributions	(32,069)
(44,182)	Business rates retained	(44,275)
(206,043)		**(212,398)**

c. Material items of income or expense:

The Code requires the separate disclosure of any individual material items of income or expense within the Statement of Accounts. These have been disclosed elsewhere within the notes, and relate to:

- £46.158m depreciation - *see Notes 6a, 17 and HRA Notes 5 and 6*;
- £5.875m revaluation losses - *see Notes 6a, 17 and HRA Notes 5 and 6*;
- £71.630m re-measurement of net defined liability (Gateshead) - *see Note 25*;
- £30.245m on revaluation - *see Note 17*.

8. Expenditure and funding analysis

The Expenditure and funding analysis is in relation to the Council only, as the objective of this is to demonstrate to council tax and rent payers how the funding available to the Council (i.e. government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The only adjustments between the outturn report and the Financial Statements of TGHC are pension adjustments. The Expenditure and funding analysis also shows how this expenditure is allocated for decision making purposes between the Council's internal Groups. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement:

2018/19 (restated)				2019/20		
Net expenditure chargeable to the General Fund / HRA	Adjustments between funding and accounting basis‡	**Net expenditure in the CIES**		Net expenditure chargeable to the General Fund / HRA	Adjustments between funding and accounting basis‡	**Net expenditure in the CIES**
£000s	**£000s**	**£000s**		**£000s**	**£000s**	**£000s**
108,696	(1,390)	107,306	Children, Adults and Families	111,623	(14,547)	97,076
6,887	2,862	9,749	Corporate Services & Governance and Office of the Chief Executive	6,446	1,758	8,202
1,444	38,922	40,366	Economy, Innovation and Growth	(534)	18,584	18,050
21,047	13,153	34,200	Housing, Environment and Healthy Communities	20,725	12,690	33,416
2,401	(9,624)	(7,223)	Local authority housing (HRA)	519	(17,071)	(16,552)
(75)	656	581	Other Corporate Income and Expenditure	(1,328)	1,010	(318)
21,715	(14,449)	7,266	Public Health and Wellbeing	20,044	(14,519)	5,525
8,913	14,740	23,653	Resources & Digital	9,314	11,217	20,532
(1,043)	1,826	783	Schools	1,154	(2,111)	(957)
169,985	**46,696**	**216,681**	**Net Cost of Services**	**167,963**	**(2,989)**	**164,974**
0	**0**	**0**	Review of Strategic Reserves	7,494	(7,494)	0
(169,767)	37,276	(132,491)	Other income and expenditure	(170,421)	14,252	(156,170)
218	Ω **83,972**	**84,190**	**(Surplus) / Deficit**	**5,037**	**3,769**	**8,804**
		52,827	**Opening General Fund and HRA balance**	**52,609**		
		$(218)	+/- surplus/(deficit) on General Fund and HRA balance	(5,037)		
		52,609	**Closing General Fund and HRA balance**	**47,572**		

‡ Further analysis of *adjustments between funding and accounting basis* is provided in Note 6a
Ω CIES breakdown of this figure (capital, pensions and other adjustments) has been provided on the following page
$ A breakdown of this movement can be found in Note 6b

2018/19 (restated)					2019/20			
Adjustments for capital purposes (Note 1) £000s	Net change for pension adjustments (Note 2) £000s	Other differences (Note 3) £000s	Total Adjustments £000s		Adjustments for capital purposes (Note 1) £000s	Net change for pension adjustments (Note 2) £000s	Other differences (Note 3) £000s	Total Adjustments £000s
7,072	9,291	(17,753)	(1,390)	Children, Adults and Families	5,754	1,963	(22,264)	(14,547)
180	1,368	1,314	2,862	Corporate Services & Governance and Office of the Chief Executive	0	171	1,761	1,932
33,212	3,780	1,930	38,922	Economy, Innovation and Growth	16,764	478	1,342	18,584
11,501	1,488	164	13,153	Housing, Environment and Healthy Communities	11,317	643	385	12,345
(9,707)	83	0	(9,624)	Local authority housing (HRA)	(17,197)	126	0	(17,071)
48	679	(71)	656	Other Corporate Income and Expenditure	0	2,286	(1,276)	1,010
2,055	2,849	(19,353)	(14,449)	Public Health and Wellbeing	3,796	441	(18,756)	(14,519)
8,140	1,458	5,142	14,740	Resources & Digital	6,706	610	4,072	11,388
(156)	1,500	482	1,826	Schools	(56)	(2,480)	425	(2,111)
52,345	**22,496**	**(28,145)**	**46,696**	**Net Cost of Services**	**27,084**	**4,238**	**(34,311)**	**(2,989)**
(10,968)	17,306	30,938	37,276	Other income and expenditure from the Expenditure and Funding Analysis	(28,836)	14,342	28,746	14,252
0	0	0	0	Review of strategic Reserves	0	0	(7,494)	(7,494)
41,377	**39,802**	**2,793**	**83,972**	**Difference between General Fund surplus or deficit and CIES (surplus) / deficit on the Provision of Services**	**(1,752)**	**18,580**	**(13,059)**	**3,769**

1. Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:
   - Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
   - Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
   - Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The *Taxation and Non Specific Grant Income and Expenditure* line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.
2. Net change for the removal of pension contributions and the addition of IAS 19 *Employee Benefits* pension related expenditure and income:
   - For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
   - For Financing and investment income and expenditure –- the net interest on the defined benefit liability is charged to the CIES.
3. Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:
   - For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
   - The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

2018/19 £000s		2019/20 £000s
	Expenditure	
233,651	Employee expenses	218,209
87,799	Other Services	87,890
228,874	Third party and transfer payments	227,173
8,383	Support service recharge	8,812
81,907	Depreciation, amortisation and impairment	47,255
11,234	Precepts and Levies	11,148
651,848		**600,577**
(7,223)	Housing Revenue Account (HRA)	(16,553)
	Income	
(271,915)	Government grants and contributions	(271,721)
(49,293)	Other grants, reimbursements and contributions	(56,210)
(67,266)	Fees, charges and other service income	(70,069)
(2,331)	Interest and investment income	(2,691)
(36,513)	Recharges	(38,163)
(133,117)	Income from council tax and business rates	(136,366)
(560,435)		**(575,220)**
84,190	**(Surplus) or Deficit on the Provision of Services**	**8,805**

Items reported below are included within the Expenditure and Funding analysis within “Fees, charges and other service income”:

2018/19 (restated) £000s		2019/20 £000s
	Fees, charges and other service income by segment	
(17,187)	Children, Adults and Families	(18,306)
(19,614)	Housing, Environment and Healthy Communities	(21,528)
(14,961)	Economy, Innovation and Growth	(13,322)
(5,779)	Public Health and Wellbeing	(6,529)
(3,915)	Resources & Digital	(4,061)
(1,698)	Corporate Services & Governance and Office of the Chief Executive	(1,935)
(514)	Other Corporate Income	(797)
(3,597)	Schools	(3,592)
(67,265)	**Total**	**(70,070)**

9. Dedicated Schools Grant

School funding for local authorities in England is provided by a ring-fenced grant called the Dedicated Schools Grant (DSG) from the Department for Education. DSG is accounted for as part of the cost of services within the Comprehensive Income and Expenditure Statement.

DSG is deployed in accordance with regulations made under the Schools Standards and Framework Act 1998 (England). The grant can only be applied to meet expenditure included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2018, 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 2019/20 are as follows:

	Central expenditure £000s	ISB £000s	Total £000s
Final DSG for 2019/20 before academy recoupment	29,322	119,420	148,742
Academy figure recouped for 2019/20	(628)	(46,352)	(46,980)
Total DSG after academy recoupment 2019/20	**28,694**	**73,068**	**101,762**
Plus: brought forward from 2018/19	243	573	816
Less: carry-forward to 2020/21 agreed in advance	0	0	0
Agreed initial budgeted distribution in 2019/20	**28,937**	**73,641**	**102,578**
In-year adjustments	142	0	142
Final budgeted distribution in 2019/20	**29,079**	**73,641**	**102,720**
Less: actual central expenditure	(28,657)		(28,657)
Less: actual ISB deployed to schools		(72,851)	(72,851)
Carry-forward to 2020/21	**422**	**790**	**1,212**

10. 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 that the grants or contributions will be received.

Amounts recognised as due are not credited to the Comprehensive Income and Expenditure Statement (CIES) 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-ring fenced revenue grants and all capital grants) in the CIES.

Where capital grants are credited to the CIES, they are reversed out of the General Fund 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 (unapplied revenue grants 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 £1.001m in 2019/20 (£0.924m in 2018/19).

The Council credited the following grants, contributions and donations to the CIES:

2018/19 (Restated*) £000s		2019/20 £000s
	a) General government grants not attributable to Services	
(36,194)	Revenue Support and Top Up Grant	(30,121)
(6,622)	Other Grants	(13,842)
(42,816)		**(43,963)**
	b) Specific government grants attributable to Services	
(12,754)	Ministry of Housing, Communities and Local Government	(17,312)
(122,493)	Department for Education	(124,606)
(67,566)	Department for Work and Pensions	(59,834)
(16,856)	Department for Health and Social Care	(16,358)
(9,473)	Joint / other	(9,648)
(229,142)		**(227,758)**
	c) Capital grant income not attributable to Services	
(1,907)	Ministry of Housing, Communities and Local Government	(3,197)
(13,452)	Department for Education	(2,478)
(2,518)	European Regional Development Fund	(0)
(10,532)	Other government grants	(8,458)
(764)	Other non-government grants	(1,224)
(713)	Other non-government contributions	(16,689)
(29,886)		**(32,046)**
(301,843)	**Total grants and government contributions**	**(303,767)**
	d) Other contributions and donations	
(49,161)	Other revenue contributions attributable to Services	(56,209)
0	Other capital contributions not attributable to Services	0
(225)	Donated assets not attributable to Services	(23)
(49,386)	**Total other contributions**	**(56,232)**

*Restated to reflect transposing of grants received from Department of Education and Department of Works and Pensions in 2018/19

11. 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:

	31/03/19 £000s	31/03/20 £000s
Not later than one year	4,485	3,901
Later than one year and not later than five years	10,157	12,885
Later than five years	137,435	141,655
	152,077	**158,441**

12. Councillors' allowances

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

2018/19 £000s		2019/20 £000s
768	Basic allowance	780
436	Special responsibility allowance	431
6	Other allowances and expenses	27
1,210	**Total**	**1,238**

More information on the allowances scheme can be found on the Council's website.

13. External audit costs

The Council and Group have 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 and Group's external auditors:

2018/19 £000s		2019/20 £000s
110	Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year (Mazars LLP)	110
16	Fees payable in respect of other services provided by Mazars LLP during the year	18
126	**Total Council costs**	**128**
27	Fees payable to external auditors with regard to external audit services for TGHC (KPMG LLP)	30
153	**Total Group costs**	**158**

14. Officers' remuneration

Remuneration of the Chief Executive and Strategic Directors are as follows:

Remuneration of senior employees 2019/20						
Post holder information	Salary, fees & allowances	Expenses allowances *	Loss of Employment Costs	Non-cash benefits	Pension contribution	**Total**
	£	£	£	£	£	**£**
Gateshead						
Chief Executive, S Ramsey	167,415	28,239	0	0	0	**195,654**
Strategic Director, Resources and Digital	118,872	0	0	0	21,744	**140,616**
Strategic Director, Housing, Environment and Healthy Communities	119,472	0	0	0	21,753	**141,225**
Strategic Director, Economy, Innovation and Growth (Acting into role from 01 Nov 2019, appointed 05 Mar 2020)	47,235	0	0	0	8,629	**55,864**
Strategic Director, Corporate Services and Governance	118,872	0	0	0	21,744	**140,616**
Strategic Director, Children, Adults and Families	136,793	0	0	0	25,005	**161,798**
Director of Public Health	98,364	0	0	17	14,231	**112,612**
	807,023	**28,239**	**0**	**17**	**113,106**	**948,385**
* Returning Officer fees						
TGHC						
Managing Director (interim), N Bouch	119,977	0	0	0	21,552	**141,529**
	119,977	**0**	**0**	**0**	**21,552**	**141,529**

Remuneration of senior employees 2018/19						
Post holder information	Salary, fees & allowances	Expenses allowances *	Loss of Employment Costs	Non-cash benefits	Pension contribution	**Total**
	£	£	£	£	£	**£**
Gateshead						
Chief Executive, S Ramsey	164,120	6,966	0	0	29,979	**201,065**
Strategic Director, Corporate Resources	116,529	0	0	0	21,318	**137,847**
Strategic Director, Communities and Environment (end date 05 Oct 2018)	60,069	0	40,000	0	163,879	**263,948**
Strategic Director (interim), Communities and Environment (from 01 Oct 2018, end date 31 Mar 2019))	58,352	0	0	0	81,339	**139,691**
Strategic Director, Corporate Services and Governance	116,529	0	0	0	21,318	**137,847**
Strategic Director, Care, Wellbeing & Learning	134,098	0	0	20	24,515	**158,633**
Director of Public Health	91,603	0	0	8	13,259	**104,870**
	741,300	**6,966**	**40,000**	**28**	**355,607**	**1,143,901**
* Returning Officer fees						
TGHC						
Managing Director, J Mallen-Beadle (end date 04 Nov 2018)	69,775	0	0	443	12,220	**82,438**
Managing Director (interim), N Bouch (from 05 Nov 2018, previous roles; Director of Customers & Communities 01 Apr 2018 - 06 May 2018, Executive Director of Operations 07 May 2018 - 04 Nov 2018)	110,929	0	0	84	19,932	**130,945**
	180,704	**0**	**0**	**527**	**32,152**	**213,383**

The number of employees (including schools but excluding those detailed above) whose remuneration (excluding pension contributions) was over £50,000 is summarised below. The table has been prepared to include and exclude the effect of any redundancies taking place in 2019/20 to indicate the cost impact on senior staff:

Council	Number of Employees			
	Incl. redundancies		Excl. redundancies	
	2018/19	2019/20	2018/19	2019/20
£50,000 - £54,999	51	54	48	53
£55,000 - £59,999	33	39	33	35
£60,000 - £64,999	26	32	25	32
£65,000 - £69,999	13	22	12	22
£70,000 - £74,999	8	8	8	8
£75,000 - £79,999	9	2	9	2
£80,000 - £84,999	4	9	3	9
£85,000 - £89,999	3	0	3	0
£90,000 - £94,999	2	1	2	2
£95,000 - £99,999	5	5	5	6
£100,000 - £104,999	0	0	0	0
£105,000 - £109,999	0	0	0	0
£110,000 - £114,999	0	0	0	0
£115,000 - £119,999	0	0	0	0
£120,000 - £124,999	0	1	0	1
£125,000 - £129,999	0	1	0	0
£130,000 - £134,999	0	0	0	0
£135,000 - £139,999	0	0	0	0
£140,000 - £144,999	0	0	0	0
£145,000 - £149,999	0	0	0	0
£150,000 - £154,999	0	1	0	0

Termination benefits / Exit packages

The 2019/20 Statement of Accounts recognises a cost of £1.2m in relation to redundancies and other terminations in 2019/20, including expected redundancies in 2020/21. This includes 10 compulsory redundancies (15 in 2018/19), 28 voluntary redundancies (46 in 2018/19) and 2 other terminations (2 in 2018/19). The total cost of redundancies in 2019/20 totaled £2.3m. £1.4m of this expenditure was funded from a balance sheet provision and recognised in 2018/19, with the remaining expenditure of £0.9m being funded from revenue. In addition, as part of the 2019/20 revenue outturn, funds were set aside to create a provision of £0.8m for redundancies in 2020/21. These costs include redundancy payments made to employees and strain on the fund costs payable to the appropriate pension fund:

2018/19					Exit package cost band	2019/20				
Number				Cost		Number				Cost
CRs	VRs	Other	Total	£000s		CRs	VRs	Other	Total	£000s
12	4	2	18	107	£0 - £20,000	10	9	2	21	148
3	7	0	10	278	£20,001 - £40,000	0	4	0	4	129
0	35	0	35	1,601	£40,001 - £60,000	0	14	0	14	803
0	0	0	0	0	£60,001 - £80,000	0	0	0	0	0
0	0	0	0	0	£80,001 - £100,000	0	0	0	0	0
0	0	0	0	0	£100,001 - £150,000	0	1	0	1	140
0	0	0	0	0	£150,001 - £200,000	0	0	0	0	0
15	**46**	**2**	**63**	**1,986**	**Total**	**10**	**28**	**2**	**40**	**1,220**

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 analysed in Note 10.

Councillors and senior officers

Elected councillors have direct control over the Council's financial and operating policies. The total of councillors' allowances paid in 2019/20 is shown in Note 12. During 2019/20, 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.

During 2019/20, no related party transactions were entered into with senior officers or their close family members.

Joint arrangements and associates

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.

Tyne and Wear Archives and Museums (TWAM): assets attributable to the Council held by TWAM are also held on the Balance Sheet (see Note 18). TWAM is a joint committee partly controlled by the Council, although no other assets / liabilities attributable to the Council have been included on the Balance Sheet on materiality grounds. It should be noted that the Committee was dissolved and replaced by a Strategic Board and trading company from 1 June 2017.

Entities controlled or significantly influenced by the Council

The following organisations are significant bodies (either financially or due to their nature or level of Council control) that must be included within the Council's Statement of Accounts in some form. Where the level of control is significant and the financial value material, the Council is obliged to consider the requirement to prepare group, rather than single entity, accounts.

The Gateshead Housing Company (TGHC) is materially significant to the overall financial position of the Council and has therefore been consolidated into the Group Accounts.

At present, it is not felt that the values or nature of the other bodies within the scope of group accounts warrants the preparation of full group accounts; as such, the Council discloses all significant balances and transactions within these bodies that are attributable to the Council. The requirement to produce group accounts is analysed and considered annually.

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 4th 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 16th 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 £7.811m (£11.693m in 2018/19). 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 impair the valuation. The spread of COVID-19 across the world towards the end of 2019/20 led to a sudden decline in air travel prompting the value of the shareholding to be impaired.

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. £0.680m dividend was received for the year ended 31st December 2019 (Nil for the year ended 31st December 2018).

Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012/13, issuing £67.665m shareholder loan notes. The Council holds £10.299m of the loan notes which will be repayable in 2032 with interest normally being received up to that date on a six monthly basis.

Due to major curtailments in the airport operations as a result of the COVID-19 pandemic the Council has agreed to modify the terms of these loans and has accepted that under the unprecedented circumstances the airport can defer interest repayments for the following two financial years with catch up payments to be made in instalments over a later period. This has resulted in a restatement of the loan value with a modification loss of £0.874m (nil in 2018/19) charged to the financing and investment income and expenditure line of the CIES. Furthermore, the Council looked at several observable factors regarding the robustness of the airport operations going forward

resulting in an expected lifetime loss provision of £0.129m (nil in 2018/19) in the event all repayments are not made at some time in the future.

Other than these loan notes 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 £11.007m and a profit after tax of £7.502m for the year ended 31st December 2019. In the previous year, the Group made a profit before tax of £10.443m and a profit after tax of £7.435m.

Gateshead Trading Company

The Gateshead Trading Company Ltd (GTC) is a wholly owned subsidiary of the Council limited by shares. Its activities during 2019/20 included construction, design services and economic development. The company's turnover in 2019/20 was £3.171m (£0.835m in 2018/19). The company's cost of sales in 2019/20 was £2.866m (£0.949m in 2018/19). The company made a profit of £0.157m in 2019/20 (loss of £0.341m in 2018/19).

Gateshead Energy Company

The Gateshead Energy Company (GEC) is a wholly owned subsidiary of the Council limited by shares. The Council's energy subsidiary commenced trading during 2016/17; its activities involved the management of the Council's town centre district energy network which provides heat and power to local customers. The company's turnover in 2019/20 was £2.413m (£2.398m in 2018/19). The company's cost of sales in 2019/20 was £2.074m (£2.581m in 2018/19). The company made a loss of £0.286m in 2019/20 (loss of £0.617m in 2018/19).

Regent Funeral Services

Regent Funeral Services (RFS) is a wholly owned subsidiary of the Council limited by shares. RFS commenced trading during 2018/19; the principal activity of the company is the delivery of funerals and related activities. The company's turnover in 2019/20 was £0.221m (£0.158m in 2018/19). The company's cost of sales in 2019/20 was £0.106m (£0.095m in 2018/19). The company made a loss of £0.204m in 2019/20 (£0.203m in 2018/19).

PSP Gateshead Limited Liability Partnership (LLP)

PSP Gateshead is a partnership between the Council and Public Sector Plc (PSP) which was incorporated on 13 January 2017 and began trading on 01 April 2019. The company was set up to consider the viability of investment in the Council's portfolio of investment properties with a view to reducing costs, increasing income, enhancing its value and improving the return on its investment. PSP made a profit of £0.273m and had an operating cost of £3.345m in 2019/20. Any profit generated over and above the base rent is distributed 75% Gateshead Council 25% Public Sector Plc.

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 wholly owned by the Council and as at 31 March 2020 employs 817 members of staff (781 FTE). TGHC made a loss of £4.606m for the year ended 2019/20 (loss of £8.048m in 2018/19). The company's turnover was £61.753m in 2019/20 (£59.773m in 2018/19). The company's operating costs totalled £65.304m in 2019/20 (£70.536m in 2018/19). The pension liability increased in 2019/20 to £50.700m (£46.250m in 2018/19).

The Code of Practice requires local authorities with interests in subsidiaries, associates and joint ventures to produce Group Accounts in addition to their single entity financial statements where their interest is considered material. TGHC is materially significant to the overall financial position of the Council and has therefore been consolidated into the Group Accounts. All other entities are not considered to be material and so have not been consolidated.

Gateshead Regeneration LLP

Gateshead Regeneration Partnership (GRP) was established on 27 March 2012 as a joint venture between Evolution Gateshead and the Council to facilitate housing growth in Gateshead. The Council has 50% control of this partnership and Evolution Gateshead, a consortium between Home Group and Vistry Homes, control the remaining 50%. The first sites were transferred to GRP for development from Council ownership in March 2014.

Construction is nearing completion on the first tranche of sites, including schemes at Saltwell and Birtley, involving over 360 homes and over £70m of investment. There were 31 legal completions in 2019/20. In addition to the first tranche of sites GRP has also commenced work on site relating to a further 62 homes on sites in Windy Nook and Rowlands Gill, with strong sales interest and growing momentum and has submitted a planning application for a further 300 homes on the Freight Depot site.

GRP made a profit of £0.045m for the year ended 2019/20 (£0.908m profit in 2018/19) taking the overall retained profit for GRP to £1.4m. The company's turnover was £7.788m in 2019/20 (£9.735m in 2018/19). The company's cost of sales was £7.530m in 2019/20 (£8.827m in 2018/19).

The financial projections of the company indicate that its overall profits in 2019/20 will be immaterial on an accounting basis to the Council. The company's latest accounts are available for free through the Companies House website and the 2019/20 accounts will be published by 31 December 2020.

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).

2018/19		2019/20		
(Profits) / losses £000s		Income £000s	Expenditure £000s	(Profits) / losses £000s
1,046	Building Cleaning	(4,391)	4,873	482
211	Civic Restaurants	(853)	1,025	172
30	Construction	(0)	0	0
677	Fleet	(7,379)	7,902	523
232	Maintenance	(6,414)	6,728	314
748	School Meals	(6,227)	6,567	340
680	Security	(0)	0	0
509	Highways	(18,074)	18,443	369
4,133		**(43,338)**	**45,538**	**2,200**

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 methodologies and bases for estimation set out in the professional standards of Royal Institution of Chartered Surveyors (RICS) Valuation Standards (The Red Book). The sources of information and assumptions made in producing the individual property valuations are set out in the valuation report.

  The valuation work has been undertaken by BNP Paribas Real Estate UK and Lambert Smith Hampton.

  The outbreak of COVID-19 was declared by the World Health Organisation as a Global Pandemic on the 11 March 2020, and this has impacted global financial markets and market activity in many sectors of the economy. At the valuation date, it is considered that less weight can be attached to previous market evidence for comparison purposes to inform opinions of value. The response to COVID-19 has led to an unprecedented set of circumstances on which to base judgement. The valuations as at 31 March 2020 are therefore reported on the basis of "material uncertainty" as per VPS 3 and VPA 10 of the RICS Red Book Global. Consequently, less certainty, and a higher degree of caution should be attached to the valuation than would normally be the case. However, the Council and our Valuers have kept this position under review, considering the available market evidence and do not consider there to have been a material impact upon the valuation of Gateshead's assets at this time. In addition, to further support this position it is also noted that the "material uncertainty" basis has recently been lifted for many sectors as the economic recovery continues.

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 current value, determined using the basis of Existing Use Value for Social Housing (EUV-SH);
- Surplus assets are measured at fair value, estimated at highest and best use from a market participant's perspective; and
- All other classes of asset are measured at current value, determined as the amount that would be paid for

the asset in its existing use.

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

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, Sage Gateshead and the Energy from Waste facility (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. Those properties which have not been valued in this financial year were valued as at the date of the last valuation report.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a valuation 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. 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.

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 BNP Paribas, as at 1 April in the reporting period.

- **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* 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 brought into use;
    - 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/use)	3-10 years
• Buildings (depending on use/construction /condition)	15-50 years
• Infrastructure assets (excluding Millennium Bridge)	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.

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.

Surplus Property

The Council measures some of its surplus assets at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement assumes that the transaction takes place either in the principal market for the asset or in the most advantageous market for the asset. Participants are assumed to act in their economic best interest by using the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques are categorised within the fair value hierarchy, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets;
- Level 2: inputs other than those in Level 1 that are observable, directly or indirectly; and
- Level 3: unobservable inputs.

When the fair values cannot be measured based on quoted prices in active markets for identical properties (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar properties or the discounted cash flow model). Where possible, the inputs to these valuation techniques are based on observable data but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets.

Surplus property				
Fair value using:	Level 1 £000s	Level 2 £000s	Level 3 £000s	**Total £000s**
Residential Land	0	22,293	0	**22,293**
Offices	0	935	0	**935**
Total	0	**23,228**	0	**23,228**

The fair value for the above properties has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

Gross book values:

	Other land and buildings *	Buildings under finance lease ‡	Assets under construction ‡	Vehicles, plant and equipment ‡	Council dwellings *	Infrastructure ‡	Community assets ‡	Surplus assets $	**Total**
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Cost or valuation									
Balance at 1 April 2018	**452,698**	**48,456**	**6,119**	**69,499**	**720,025**	**210,835**	**5,912**	**25,390**	**1,538,934**
Reclassifications	(3,076)	0	(2,592)	2,538	387	0	(3)	3,680	934
Additions	13,310	0	4,524	5,472	29,032	12,238	100	375	65,051
Donations	0	0	0	0	0	0	0	0	0
Disposals	(1,729)	0	0	(6,380)	(4,921)	0	0	0	(13,030)
Revaluation increase/(decrease) to Revaluation Reserve	(10,045)	(1,072)	0	0	(11,106)	0	0	(484)	(22,707)
Revaluation increase/(decrease) to Comprehensive I&E	(24,551)	(546)	0	0	(16,066)	0	0	(2,120)	(43,283)
Impairment Charged to Revaluation Reserve	0	0	0	0	0	0	0	0	0
Impairment Charged to Comprehensive I&E	0	0	0	0	0	0	0	0	0
Balance at 31 March 2019	**426,607**	**46,838**	**8,051**	**71,129**	**717,351**	**223,073**	**6,009**	**26,841**	**1,525,899**
Reclassifications	5,676	0	(11,055)	0	0	0	49	(2,985)	(8,315)
Additions	13,427	0	19,471	4,738	17,017	11,006	127	150	65,936
Donations	0	0	0	0	0	0	0	0	0
Disposals	(1,587)	0	0	(1,774)	(5,342)	0	0	0	(8,703)
Revaluation increase/(decrease) to Revaluation Reserve	(1,529)	(327)	0	0	10,959	0	0	(543)	8,560
Revaluation increase/(decrease) to Comprehensive I&E	(18,866)	0	0	0	954	0	0	(227)	(18,139)
Impairment Charged to Revaluation Reserve	0	0	0	0	0	0	0	0	0
Impairment Charged to Comprehensive I&E	0	0	0	0	0	0	0	0	0
Balance at 31 March 2020	**423,728**	**46,511**	**16,467**	**74,093**	**740,939**	**234,079**	**6,185**	**23,236**	**1,565,238**

* at current value
‡ at historic cost
$ at fair value

Accumulated depreciation and net book values:

	Other land and buildings *	Buildings under finance lease ‡	Assets under construction ‡	Vehicles, plant and equipment ‡	Council dwellings *	Infrastructure ‡	Community assets ‡	Surplus assets $	**Total**
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Accumulated Depreciation									
Balance at 1 April 2018	**(40,980)**	**(2,308)**	**0**	**(53,857)**	**(13,787)**	**(62,522)**	**(1)**	**(16)**	**(173,471)**
Reclassifications	414	0	0	0	(70)	0	0	(344)	0
Disposals	290	0	0	5,893	95	0	0	0	6,278
Depreciation written out to Revaluation Reserve on revaluation	7,886	1,762	0	0	10,784	0	0	13	20,445
Depreciation written out to Comprehensive I&E on revaluation	8,139	546	0	0	2,979	0	0	347	12,011
Depreciation	(15,540)	(2,337)	0	(5,660)	(14,035)	(6,889)	0	(9)	(44,470)
Depreciation written out to Revaluation Reserve on impairment	0	0	0	0	0	0	0	0	0
Depreciation written out to Comprehensive I&E on impairment	0	0	0	0	0	0	0	0	0
Balance at 31 March 2019	**(39,791)**	**(2,337)**	**0**	**(53,624)**	**(14,034)**	**(69,411)**	**(1)**	**(9)**	**(179,207)**
Reclassifications	781	0	0	0	0	0	0	0	781
Disposals	280	0	0	1,646	105	0	0	0	2,031
Depreciation written out to Revaluation Reserve on revaluation	7,554	2,295	0	0	10,744	0	0	0	20,593
Depreciation written out to Comprehensive I&E on revaluation	8,967	42	0	0	3,187	0	0	9	12,205
Depreciation	(16,311)	(1,938)	0	(5,624)	(14,819)	(7,450)	0	(8)	(46,150)
Depreciation written out to Revaluation Reserve on impairment	0	0	0	0	0	0	0	0	0
Depreciation written out to Comprehensive I&E on impairment	0	0	0	0	0	0	0	0	0
Balance at 31 March 2020	**(38,520)**	**(1,938)**	**0**	**(57,602)**	**(14,817)**	**(76,861)**	**(1)**	**(8)**	**(189,747)**

	Other land and buildings *	Buildings under finance lease ‡	Assets under construction ‡	Vehicles, plant and equipment ‡	Council dwellings *	Infrastructure ‡	Community assets ‡	Surplus assets $	**Total**
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Net Book Value at 31/03/2019	**386,816**	**44,501**	**8,051**	**17,505**	**703,317**	**153,662**	**6,008**	**26,832**	**1,346,692**
Net Book Value at 31/03/2020	**385,208**	**44,573**	**16,467**	**16,491**	**726,122**	**157,218**	**6,184**	**23,228**	**1,375,491**

* at current value
‡ at historic cost
$ at fair value

Revaluations

Valuations are summarised in the table below:

	Other Land and Buildings	Council Dwellings	Vehicles, Plant and Equipment	Surplus Assets	Infrastructure Assets	Community Assets	Assets Under Construction	**Total Valuation**
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	**£000s**
Carried at Historical Cost	8,976	0	74,093	0	234,079	6,184	16,467	**339,799**
Valued at Current Value as at:								
Assets valued 1 April 2019	231,470	740,940	0	23,236	0	0	0	**995,646**
Assets valued 1 April 2018	70,340	0	0	0	0	0	0	**70,340**
Assets valued 1 April 2017	19,248	0	0	0	0	0	0	**19,248**
Assets valued 1 April 2016	40,460	0	0	0	0	0	0	**40,460**
Assets valued 1 April 2015	99,746	0	0	0	0	0	0	**99,746**
Total Cost or Valuation	**470,239**	**740,940**	**74,093**	**26,841**	**234,079**	**6,009**	**16,467**	**1,565,238**

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 the following 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 2016/17) 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 2016/17) for any significant items where possible, or by valuations provided by the Council's Culture service, which are informed by commercial markets and the estimated replacement costs. 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.
- **Buildings:** Buildings that are preserved for future generations due to their historical and cultural nature and have therefore been reclassified by the valuer from Property, Plant and Equipment. The valuation is based on the likely replacement cost, which is informed by knowledge of the structure and ongoing maintenance programs.

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 Council's Culture service.

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 409 heritage assets, held to increase the knowledge, understanding of the Council's history and local area. These have been split into the following categories:

- **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 Museum on behalf of the Council. The

collection includes two paintings by Hans Schäufelein on display at the Shipley Art Gallery[4]; a full list of exhibition listings and the Tyne and Wear Museums' access policy is available on their website www.twmuseums.org.uk/corporate-publications-and-policies/policies.

- **Public artwork:** the collection includes a number of sculptures on display throughout Gateshead, including the Angel of the North which is on the balance sheet on the basis of its insurance valuation.
- **Buildings:** this includes the Wardley Locomotive shed, Bowes Railway and Winlaton Cottage Forge Museum, all of which have been reclassified as part of the valuation process as a heritage asset rather than being held within other land and buildings.

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

	Public artwork £000s	Civic regalia £000s	Buildings £000s	Museum collections £000s	Total £000s
Cost or Valuation 2018/19:					
1 April 2018	10,952	379	956	14,416	26,703
Reclassified from PPE	0	0	0	0	0
Additions	0	0	0	0	0
Donations	0	0	0	225	225
Disposals	0	0	0	0	0
Upward Revaluations	125	0	0	0	125
31 March 2019	**11,077**	**379**	**956**	**14,641**	**27,053**
Cost or Valuation 2019/20:					
1 April 2019	11,077	379	956	14,641	27,053
Reclassified from PPE	0	0	0	0	0
Additions	16	0	0	0	16
Donations	23	0	0	0	23
Disposals	0	0	0	0	0
Upward Revaluations	60	0	0	0	60
31 March 2020	**11,176**	**379**	**956**	**14,641**	**27,152**

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).

Capital commitments

At 31 March 2020 the Council had £10.6m of contractual commitments for the construction or enhancement of property, plant and equipment (£11.4m in 2018/19). These relate to the following schemes:

- Investment in MetroGreen £0.1m
- Investment in Riga £0.1m
- Investment in Schools Construction £10.0m
- Investment in a Multistorey Car Park £0.3m

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):

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

2018/19 £000s		2019/20 £000s
730,383	**Opening capital financing requirement**	**753,626**
	Capital investment	
65,051	Property, plant and equipment	65,936
51	Heritage assets	39
0	Investment properties	0
1,130	Intangible assets	1,742
107	Assets held for sale	49
18,110	Revenue expenditure funded from capital under statute	8,005
5,239	Long-term debtors relating to capital transactions	3,900
0	Acquisition of PFI assets	0
	Sources of finance	
(7,255)	Capital receipts	(1,700)
(43,443)	Government grants and other contributions	(48,114)
	Sums set aside from revenue:	
(944)	Direct revenue contributions	(124)
(14,803)	MRP/loans fund principal	(17,167)
753,626	**Closing capital financing requirement**	**766,192**
	Explanation of movements in year:	
(2,547)	Increase/(decrease) in underlying need to borrowing (supported by government financial assistance)	(2,547)
28,910	Increase in underlying need to borrowing (unsupported by government financial assistance)	18,234
(3,120)	Assets acquired under PFI/PPP contracts	(3,120)
23,243	**Increase/(decrease) in capital financing requirement**	**12,567**

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
- Payment towards liability: applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).

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.

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 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

31/03/19 £000s			31/03/20 £000s	
Schools	**Waste**		**Schools**	**Waste**
24,398	**48,135**	**Opening values**	**23,807**	**45,754**
30	0	Additions	11	0
0	0	Transfers	474	662
0	0	Disposals	0	0
0	0	Downward revaluations	0	1,959
0	0	Upward revaluations	0	270
(621)	(2,381)	Depreciation	(621)	(2,021)
23,807	**45,754**	**Closing values**	**23,671**	**46,624**

b) Analysis of movements in PFI liabilities

The following transactions were processed during 2019/20:

31/03/19 £000s			31/03/20 £000s	
Schools	**Waste**		**Schools**	**Waste**
1,449	4,688	Services	1,446	4,573
0	677	Lifecycle	0	1,371
848	2,273	Capital repayment	904	1,659
1,517	852	Interest	1,461	805
825	276	Contingent rent	868	257
4,639	**8,766**	**Total payment**	**4,679**	**8,665**
(5,057)	(1,805)	PFI grant receivable (excluding academy schools)	(5,057)	(1,805)
2,167	0	Grant attributable to academy / diocesan schools	2,167	0
1,749	**6,961**	**Net payment**	**1,789**	**6,860**

Contingent rents included above relate to contractual clauses for general inflation.

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

31/03/19 £000s			31/03/20 £000s	
Schools	**Waste**		**Schools**	**Waste**
(22,912)	**(41,400)**	**Opening values**	**(22,064)**	**(39,127)**
0	0	Additions	904	0
848	2,273	Repayment of capital	0	1,659
(22,064)	**(39,127)**	**Closing values**	**(21,160)**	**(37,468)**

c) Analysis of unitary charge payments outstanding

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

	Repayment of liability		Interest payment		Service charges		Total
	Schools £000s	**Waste £000s**	**Schools £000s**	**Waste £000s**	**Schools £000s**	**Waste £000s**	**£000s**
– within 1 year	964	2,057	1,401	771	2,355	4,372	**11,920**
– between 1 and 5 years	4,536	7,610	4,923	2,670	9,845	18,590	**48,174**
– between 5 and 10 years	7,580	8,910	4,245	2,507	13,349	24,776	**61,367**
– between 10 and 15 years	8,080	9,724	1,380	1,541	9,375	25,209	**55,309**
– between 15 and 20 years	0	9,167	0	492	0	19,714	**29,373**
– between 20 and 25 years	0	0	0	0	0	0	**0**
	21,160	**37,468**	**11,949**	**7,981**	**34,924**	**92,661**	**206,143**

d) Significant contractual information

Significant terms of the arrangement

Schools

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).

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 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.

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:

31/03/19 £000s		31/03/20 £000s
46	Cash held by the Council	29
(14,163)	Bank overdraft - Council	(20,615)
8,918	Short-term deposits - Council	60,461
(5,199)	**Total Council cash and cash equivalents**	**39,875**
6,664	Cash - TGHC	8,976
0	Intra-group cash to be excluded	0
1,465	**Group cash and cash equivalents**	**48,851**

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 March 2019 £000s			31 March 2020 £000s	
< 1 year	> 1 year		< 1 year	> 1 year
7,653	0	Central government bodies	10,601	0
8,402	0	NHS bodies	9,857	0
14,720	0	Other local authorities	10,212	0
260	0	Other public bodies	0	0
38,090	27,121	Bodies external to general government	42,524	29,746
69,125	**27,121**		**73,194**	**29,746**
1,581	0	Debtors - TGHC	2,267	0
(2,411)	0	Intra-group debtors to be excluded	(6,230)	0
68,295	**27,121**	**Group total**	**69,231**	**29,746**

The debtors' balance represents the amount due to the Council from customers or grants outstanding from funding bodies. An impairment allowance of £14.318m is held within the *bodies external to general government* category above to provide against the risk of default on debt outstanding from trade, or non-government, debtors (2018/19: £12.360m).

The impairment allowance in relation to Council Tax and business rates are based on an analysis of arrears which use a formulaic approach depending on the age of the debt. The Council will make every effort possible to collect the debt but where this is not possible it will be written off in accordance with proper accounting practice. Amounts written off were already included in the impairment allowances and accounted for in the previous period.

The impairment allowance in relation to Council Tax as at 31 March 2020 was estimated as £2.025m (2018/19: £1.602m) whilst the impairment allowance in relation to business rates was estimated as £0.627m (2018/19: £0.735m). These represent the Council's share of the provision for bad debt as the preceptor shares are allocated in proportion to their share.

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 2020/21:

31 March 2019 £000s			31 March 2020 £000s	
< 1 year	> 1 year		< 1 year	> 1 year
(13,479)	(86)	Central government bodies	(20,529)	(86)
(1,555)	0	NHS bodies	(1,549)	0
(7,342)	0	Other local authorities	(7,262)	0
(13)	0	Other public bodies	0	0
(33,689)	(60,590)	Bodies external to general government	(31,664)	(57,529)
(56,078)	**(60,676)**		**(61,004)**	**(57,615)**
(9,247)	0	Creditors - TGHC	(12,292)	0
2,411	0	Intra-group creditors to be excluded	6,230	0
(62,914)	**(60,676)**	**Group total**	**(67,066)**	**(57,615)**

24. Provision, contingent liabilities and contingent assets

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 2019/20 were as follows:

Balance 31/03/19 £000s		Receipts	Payments	New provision	Reversals	Balance 31/03/20 £000s
(2,472)	Business rate appeals - provision for refunds following successful appeals	0	779	(779)	0	(2,472)
(1,405)	Future redundancies - provision for costs associated with known redundancies	0	1,405	(803)	0	(803)
(3,877)	**Short-term provisions**	**0**	**2,184**	**(1,582)**	**0**	**(3,275)**
0	Airport Expected Credit Loss –in the event all repayments are not made at some time in the future.	0	0	(129)	0	(129)
0	Term Time Only – provision for the backdating of pay for term-time only employees	0	0	(1,415)	0	(1,415)
(6,706)	Insurance - provision for costs associated with future insurance claims against the Council	(579)	619	(200)	100	(6,766)
(6,706)	**Long-term provisions**	**(579)**	**619**	**(1,744)**	**100**	**(8,310)**
(10,583)	**Total provisions**	**(579)**	**2,803**	**(3,326)**	**100**	**(11,585)**

Closing provisions include the following elements:

Business Rates Appeals: Due to the localisation of Business Rates, which became effective from 1 April 2013, the Council has set aside a provision for any potential liabilities as a result of Business Rate payers' appeals against rateable valuations. The estimate has been calculated by applying historic trend analysis to open appeals lodged with the Valuation Office Agency (VOA) relating to the 2010 list, and historic estimates for likely appeals raised relating to the 2017 list. It is expected that the majority of appeals for the 2005 / 2010 list will be settled by the VOA towards the end of 2020. However, the Council cannot be certain as to when the lodged appeals will be resolved because the timing of resettlement depends on the VOA.

Future Redundancies: Redundancy costs have been provided for estimated staffing savings required. The provision is expected to be used within the next two years.

Insurance Claims: A provision has been made to meet known and anticipated liabilities on claims under the Council's insurance arrangements. This is assessed on an annual basis and adjusted as appropriate.

Newcastle Airport Expected Credit Loss: The Council holds a 13.33% interest in NALAHCL, valued at £7.811m (£11.693m in 2018/19). 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 impair the valuation. The spread of COVID-19 across the world towards the end of 2019/20 led to a sudden decline in air travel prompting the value of the shareholding to be impaired.

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 normally being received up to that date on a six monthly basis.

Due to major curtailments in the airport operations as a result of the COVID-19 pandemic the Council has agreed to modify the terms of these loans and has accepted that under the unprecedented circumstances the airport can defer interest repayments for the following two financial years with catch up payments to be made in instalments over a later period. This has resulted in a restatement of the loan value with a modification loss of £0.874m (nil in 2018/19) charged to the financing and investment income and expenditure line of the CIES. Furthermore, the Council looked at several observable factors regarding the robustness of the airport operations going forward resulting in an expected lifetime loss provision of £0.129m (nil in 2018/19) in the event all repayments are not made at some time in the future.

Term Time Only: Recent case law (The Harper Trust v Brazel) concluded term-time only employees must receive the statutory minimum holidays in accordance to the Working Time Regulations. A provision has been made to meet the estimated cost. The decision is subject to a Supreme Court appeal and so the amendment of the calculation of holidays for term-time only employees has been delayed pending any determination from the Supreme Court.

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 has assessed items which could create a contingent liability, and the following has been identified.

The Council entered into a contract with Northumbrian Water, whereby it collected water charges from its tenants on its behalf and was paid a commission. The High Court has found that similar contracts between other local authorities and other water services companies is a contract for resale of water under which the recovery of commission is limited by law. The key issue in the cases was the local authorities were acting as a 'customer' in which case it was reselling water services and should have passed savings onto tenants.

The Local Government Association is coordinating a group of Councils who are in a similar position to appeal the High Court judgement to the Court of Appeal. There was an initial hearing in February 2020 but the timeframe for the final hearing is unclear. The Housing Revenue Account Budget for 2020/21 does not include a specific provision for this and if claims were to be made they would be funded from the contingency included within the budget to manage expenditure in year.

25. Employee benefits

Gateshead Council:

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)[5]. 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 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 *Schools* line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to teachers' pensions in the year.

In 2019/20, the Council paid £7.285m to the TPA in respect of teachers' retirement benefits, the rate of pensionable pay increased to 23.6% (plus a 0.08% levy) on 1 September 2019 (the figures for 2018/19 were £5.712m and 16.4% plus a 0.08% levy). In addition, the Council is responsible for all pension payments relating to added years it has awarded, together with related increases. In 2019/20, these amounted to £3.592m, representing 8.1% of pensionable pay (£3.549m and 8.2% in 2018/19). The contributions due to be paid in the next financial year are estimated to be of a similar value. The Council is not liable to the scheme for any other entities' obligations under the plan.

b. Defined benefit plan: Tyne and Wear Pension Fund

The Tyne and Wear Pension Fund[6], part of the Local Government Pension Scheme, is administered by South Tyneside Council. This is a funded, defined benefit career-average 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 at current bid price or professional estimate and property at market value).

The change in the net pension liability is analysed into service cost (comprising current service cost, past service cost and net interest on the net defined benefit liability / asset), re-measurements (comprising return on plan assets and actuarial gains / losses) and contributions paid to the Fund.

In relation to retirement benefits, statutory provisions require the General Fund 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 2019/20, the Council paid £32.074m (£31.853m in 2018/19) to the Pension Fund in respect of pension contributions, representing 18.2% of pensionable pay (18.2% in 2018/19) and early retirement strain on the fund payments.

The scheme is accrued in accordance with the requirements of International Accounting Standard 19 *Employee Benefits*[7] (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

[5] See www.teacherspensions.co.uk/
[6] See www.twpf.info
[7] See www.ifrs.org/issued-standards/list-of-standards/ias-19-employee-benefits/

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 (CIES) and the General Fund balance via the Movement in Reserves Statement during the year:

Charges to the Comprehensive Income & Expenditure Statement (CIES)				
	Funded liabilities		Unfunded liabilities	
	31/03/19 £m	31/03/20 £m	31/03/19 £m	31/03/20 £m
CIES:				
Cost of Services:				
Current service cost	33.84	39.12	0.00	0.00
Past service cost (including curtailments)	26.65	1.39	0.00	0.00
Settlement cost	0.00	0.00	0.00	0.00
Financing and Investment Income and Expenditure:				
Interest on net defined benefit liability/(asset)	11.85	11.41	2.49	2.23
Pension expense charged to Surplus/Deficit on Provision of Services	**72.34**	**51.92**	**2.49**	**2.23**
Pension expense charged to Other Comprehensive Income and Expenditure:				
Re-measurement of net defined benefit liability:				
- Return on plan assets	(38.96)	28.35	0.00	0.00
- Actuarial (gains)/losses due to:				
changes in financial assumptions	84.94	(30.38)	3.38	(0.85)
changes in demographic assumptions	(64.49)	(26.98)	(3.84)	(2.16)
liability experience	(4.19)	(37.38)	0.28	(2.23)
Total amount charged to Other Comprehensive Income and Expenditure	**(22.70)**	**(66.39)**	**(0.18)**	**(5.24)**
Total amount recognised charged to the CIES	**49.64**	**(14.47)**	**2.31**	**(3.01)**

The total amount charged to *Other Comprehensive Income and Expenditure* (funded and unfunded) totalled £71.63m as disclosed in the Comprehensive Income and Expenditure Statement; the cumulative actuarial loss recognised to 31 March 2020 was £327.33m (2018/19: £22.88m in-year loss and £398.96m cumulative loss).

Movement in Reserves Charges				
	Funded liabilities		Unfunded liabilities	
	31/03/19 £m	31/03/20 £m	31/03/19 £m	31/03/20 £m
Movement in Reserves Statement				
Reversal of net charges made for retirement benefits in accordance with the Code	42.78	21.79	(2.98)	(3.21)
Actual amount charged against the General Fund for pensions in the year				
Employer contributions payable to the scheme	29.56	30.13		
Retirement benefits payable to pensioners			5.47	5.44

Assets and liabilities in relation to retirement benefits:

Reconciliation of the present value of Fund liabilities (defined benefit obligation)				
	Funded liabilities		Unfunded liabilities	
	2018/19 £m	2019/20 £m	2018/19 £m	2019/20 £m
Opening defined benefit obligation at 1 April	**1,523.45**	**1,600.71**	**98.65**	**95.49**
Current service cost	33.84	39.12	0.00	0.00
Interest expense on defined benefit obligation	39.12	37.95	2.49	2.23
Contributions from employees (Fund participants)	6.30	6.49	0.00	0.00
Re-measurement (gains) and losses:				
- Actuarial (gains)/losses on liabilities:				
financial assumptions	84.94	(30.38)	3.38	(0.85)
demographic assumptions	(64.49)	(26.98)	(3.84)	(2.16)
experience	(4.19)	(37.38)	0.28	(2.23)
Net decrease in liabilities from disposals (TGHC)	0.00	0.00	0.00	0.00
Net benefits paid out	(44.91)	(46.26)	(5.47)	(5.44)
Past service cost (including curtailments)	26.65	1.39	0.00	0.00
Settlements (liabilities extinguished)	0.00	0.00	0.00	0.00
Closing defined benefit obligation at 31 March	**1,600.71**	**1,544.66**	**95.49**	**87.04**

Reconciliation of fair value of the scheme assets:

Reconciliation of the movements in the fair value of Fund assets				
	Funded liabilities		Unfunded liabilities	
	2018/19 £m	2019/20 £m	2018/19 £m	2019/20 £m
Opening fair value of Fund assets	**1,053.25**	**1,110.43**	**0.00**	**0.00**
Interest income on assets	27.27	26.54	0.00	0.00
Re-measurement gains and (losses) on assets	38.96	(28.35)	0.00	0.00
Employer contributions	29.56	30.13	5.47	5.44
Employee contributions	6.30	6.49	0.00	0.00
Net benefits paid out	(44.91)	(46.26)	(5.47)	(5.44)
Net increase in assets from disposals/acquisitions	0.00	0.00	0.00	0.00
Settlements	0.00	0.00	0.00	0.00
Closing fair value of Fund assets	**1,110.43**	**1,098.98**	**0.00**	**0.00**

The actual return on scheme assets in the year was as follows:

	2018/19 £m	2019/20 £m
Interest income on assets	27.27	26.54
Re-measurement gain / (loss) on assets	38.96	(28.35)
Actual return on assets	**66.23**	**(1.81)**

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

	31/03/19	31/03/20		
	Total	Quoted	Unquoted	Total
Equity investments	65.0%	48.0%	6.8%	54.8%
Property	8.8%	0.0%	9.0%	9.0%
Government bonds	4.1%	4.1%	0.0%	4.1%
Corporate bonds	11.7%	15.3%	0.0%	15.3%
Cash	2.7%	2.3%	0.0%	2.3%
Other assets	7.7%	8.5%	6.0%	14.5%
	100.0%	**78.2%**	**21.8%**	**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:

	2018/19 £m	2019/20 £m
Funded:		
Fair value of Fund assets	1,110.43	1,098.98
Present value of the unfunded defined benefit obligation - Council	(1,600.71)	(1,544.66)
	(490.28)	(445.68)
Unfunded:		
Present value of the unfunded defined benefit obligation - Council	(95.49)	(87.04)
Asset / (liability) recognised on Balance Sheet	**(585.77)**	**(532.72)**

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 2021 are estimated to be £19.95m. In addition, strain on the fund contributions may be required. It is also expected that the Council will pay £5.53m directly to beneficiaries (unfunded and teachers).

The weighted average duration of the defined benefit obligation is 19.9 years (18.7 years in 2018/19). The split of the defined benefit obligation at the last valuation date between the various categories of Gateshead LGPS members was as follows:

- Active members 39%
- Deferred members 14%
- Pensioners and dependants 47%

Actuarial assumptions

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of pensions payable in future years; it is dependent on assumptions such as mortality rates and salary levels. Aon, an independent firm of actuaries, has valued the Fund's assets and liabilities in accordance with IAS 19 based upon the latest actuarial valuation of the Fund (funded benefits) as at 31 March 2019 (unfunded benefits: 31 March 2020).

Assets and liabilities valuations also take into account the impact of the McCloud / Sergeant judgement that found the transitional arrangements in place when firefighters and judges pensions schemes were reformed were age discriminatory. This judgement is likely to affect all other public sector pension funds which reformed around this time and applied the same transitional arrangements. The approach taken for 2019/20 assumes that the remedy applies to all those in the scheme on 1 April 2002, including withdrawal, and will apply to spouse's pensions.

Legislation requires HM Treasury and the Scheme Advisory Board (SAB) to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. At this point in time, HM Treasury and the SAB have paused their reviews following the McCloud judgement in the Court of Appeal. As such, the assumptions make no allowance for the potential cost of improving members' benefits under these reviews until the cost management processes have recommenced.

The principal assumptions used by the actuaries have been:

	Funded Liabilities		Unfunded Liabilities	
	2018/19	2019/20	2018/19	2019/20
Financial assumptions (% per annum)				
Discount rate for Fund liabilities	2.4%	2.3%	2.4%	2.3%
Rate of inflation - RPI	3.3%	N/A	3.3%	N/A
Rate of inflation - CPI	2.2%	2.0%	2.2%	2.0%
Rate of increase to pensions in payment	2.2%	2.0%	2.2%	2.0%
Rate of increase to deferred pensions	2.2%	2.0%	N/A	N/A
Rate of general increase in salaries	3.7%	3.5%	N/A	N/A
Mortality assumptions (years)				
Longevity at 65 for current pensioners:				
Men	22.2	21.8	22.2	21.8
Women	25.3	25.0	25.3	25.0
Longevity at 65 for future pensioners (currently aged 45):				
Men	23.9	23.5	N/A	N/A
Women	27.2	26.8	N/A	N/A
Commutation				
2019/20 and 2018/19: 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.				

Group position:

Transactions relating to retirement benefits

The following transactions have been made in the Comprehensive Income and Expenditure Statement (CIES):

Charges to the Comprehensive Income & Expenditure Statement (CIES)		
	Group Total	
	31/03/19 £m	31/03/20 £m
CIES:		
Cost of Services:		
Current service cost	40.00	46.05
Past service cost (including curtailments)	35.07	1.39
Settlement cost	0.00	0.00
Financing and Investment Income and Expenditure:		
Interest on net defined benefit liability/(asset)	15.38	14.72
Pension expense charged to Surplus/Deficit on Provision of Services	**90.45**	**62.16**
Pension expense charged to Other Comprehensive Income and Expenditure:		
Re-measurement of net defined benefit liability:		
- Return on plan assets	(43.85)	21.75
- Total Actuarial (gains)/losses	17.22	(94.36)
Net decrease in liabilities from disposals (TGHC)		
Total amount charged to Other Comprehensive Income and Expenditure	**(26.63)**	**(72.61)**
Total amount recognised charged to the CIES	**63.82**	**(10.45)**

The total amount charged to *Other Comprehensive Income and Expenditure* (funded and unfunded) totaled £10.45m (2018/19: £63.82m).

Assets and liabilities in relation to retirement benefits

Reconciliation of the present value of Fund liabilities (defined benefit obligation)		
	Group Total	
	2018/19 £m	2019/20 £m
Opening defined benefit obligation at 1 April	**1,755.88**	**1,853.62**
Current service cost	40.00	46.05
Interest expense on defined benefit obligation	45.32	44.10
Contributions from employees (Fund participants)	7.51	7.74
Re-measurement (gains) and losses:		
- Total actuarial (gains)/losses on liabilities	17.22	(105.60)
Net decrease in liabilities from disposals (TGHC)	0.00	0.00
Net benefits paid out	(53.19)	(54.00)
Past service cost (including curtailments)	31.21	1.39
Settlements (liabilities extinguished)	9.67	0.00
Closing defined benefit obligation at 31 March	**1,853.62**	**1,793.30**

Reconciliation of fair value of the scheme assets:

Reconciliation of the movements in the fair value of Fund assets		
	Group Total	
	2018/19 £m	2019/20 £m
Opening fair value of Fund assets	**1,148.94**	**1,221.60**
Interest income on assets	29.94	29.38
Re-measurement gains and (losses) on assets	43.85	(34.95)
Employer contributions	38.74	39.11
Employee contributions	7.51	7.74
Net benefits paid out	(53.19)	(54.00)
Net increase in assets from disposals/acquisitions	5.81	0.00
Settlements	0.00	0.00
Closing fair value of Fund assets	**1,221.60**	**1,208.88**

The actual return on scheme assets in the year was as follows:

	2018/19 £m	2019/20 £m
Interest income on assets	29.94	29.38
Re-measurement gain / (loss) on assets	43.85	(34.95)
Actual return on assets	**73.79**	**(5.57)**

The Fund's assets consist of the following categories, by proportion of the total:

	31/03/19	31/03/20
	Group Total	Group Total
Equity investments	65.0%	54.8%
Property	8.8%	9.0%
Government bonds	4.1%	4.1%
Corporate bonds	11.7%	15.3%
Cash	2.7%	2.3%
Other assets	7.7%	14.5%
	100.0%	**100.0%**

Scheme history of gains and losses

	2018/19 £m	2019/20 £m
Funded:		
Fair value of Fund assets	1,221.60	1,209.88
Present value of the unfunded defined benefit obligation	(1,758.13)	(1,706.26)
	(536.53)	(496.38)
Unfunded:		
Present value of the unfunded defined benefit obligation	(95.49)	(87.04)
Asset / (liability) recognised on Balance Sheet	**(632.02)**	**(583.42)**

Expected future contributions

The expected contributions to be made to the Tyne and Wear Pension Fund by the Group for the accounting period to 31 March 2021 are estimated to be £23.35m. In addition, strain on the fund contributions may be required. It is also expected that the Council will pay £5.53m directly to beneficiaries (unfunded and teachers).

The weighted average duration of the defined benefit obligation is 19.9 years for the Council and 25.0 years for TGHC years (18.7 years in 2018/19). The split of the defined benefit obligation at the last valuation date between the various categories of was as follows:

	Gateshead Council	TGHC
Active Members	39%	70%
Deferred Pensioners	14%	8%
Pensioners	47%	22%

Actuarial assumptions

	Group Total	
	2018/19	2019/20
Financial assumptions (% per annum)		
Discount rate for Fund liabilities	2.4%	2.3%
Rate of inflation - RPI	3.3%	N/A
Rate of inflation - CPI	2.2%	2.0%
Rate of increase to pensions in payment	2.2%	2.0%
Rate of increase to deferred pensions	2.2%	2.0%
Rate of general increase in salaries	3.7%	3.5%
Mortality assumptions (years)		
Longevity at 65 for current pensioners:		
Men	22.2	21.8
Women	25.3	25.0
Longevity at 65 for future pensioners (currently aged 45):		
Men	23.9	23.5
Women	27.2	26.8

Commutation
2019/20 and 2018/19: 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.

Sensitivity analysis

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 2020 and the projected service cost for the year ending 31 March 2021 is set out below:

Funded LGPS benefits	+0.1% Council	-0.1% Council	+0.1% TGHC	-0.1% TGHC
Discount rate assumption:				
Adjustment to discount rate				
	1,514.24			
Present value of total obligation (£m)		1,575.69	157.61	165.69
% change in present value of total obligation	-2.0%	2.0%	-2.5%	2.5%
Projected service cost (£m)	37.81	40.49	6.90	7.43
Approximate % change in projected service cost	-3.4%	3.5%	-3.7%	3.8%
Rate of general increase in salaries:				
Adjustment to salary rate increase				
Present value of total obligation (£m)	1,548.76	1,540.61	162.43	160.78
% change in present value of total obligation	0.3%	-0.3%	0.5%	-0.5%
Projected service cost (£m)	39.13	39.13	7.16	7.16
Approximate % change in projected service cost	0.0%	0.0%	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				
Present value of total obligation (£m)	1,572.08	1,517.80	164.93	158.35
% change in present value of total obligation	1.8%	-1.7%	2.1%	-2.0%
Projected service cost (£m)	40.49	37.81	7.43	6.90
Approximate % change in projected service cost	3.5%	-3.4%	3.8%	-3.7%
Post retirement mortality assumption:				
Adjustment to mortality age rating assumption*				
Present value of total obligation (£m)	1,594.13	1,495.69	166.71	156.54
% change in present value of total obligation	3.2%	-3.2%	3.2%	-3.1%
Projected service cost (£m)	40.60	37.67	7.43	6.90
Approximate % change in projected service cost	3.8%	-3.7%	3.7%	-3.7%

*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.

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

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority

becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

However, the authority has made loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) 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.

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

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, 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 amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account.

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

Expected Credit Loss Model

The authority recognises expected credit losses on all of its financial assets held at amortised cost or FVOCI, either on a 12-month or lifetime basis. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The authority issues loans to local businesses. It does not have reasonable and supportable information that is available without undue cost or effort to support the measurement of lifetime expected losses on an individual instrument basis. It has therefore assessed losses for the portfolio on a collective basis.

The authority has grouped similar loans for assessing loss allowances:

Group 1 – Vanilla treasury investments – Expected Credit Loss is calculated by the Council's Treasury Management advisors, assessing the credit risk of the counterparty and the duration of the investment.

Group 2 – Non-Treasury Investments to deliver service objectives – Expected Credit Loss is assessed initially by ensuring repayments are not overdue. The most recent statement of accounts for the counterparty is assessed to ensure that the investment risk has not increased. Historic default tables are then used to assess the anticipated credit loss based on the credit rating of the counterparty and the level of outstanding debt.

Group 3 – The loans were given to support businesses through policy initiatives. Expected credit loss will be assessed using the most recent statement of accounts for the counterparty which are assessed to ensure that the investment risk has not increased. Historic default tables are then used to assess the anticipated credit loss based on the credit rating of the counterparty and the level of outstanding debt.

The authority relies on past due information and calculates losses based on lifetime credit losses for all loans more than 30 days past due, subject to materiality.

An assessment has been made on the likelihood of default within the next twelve months for each loan including an assessment of the trading environment the loan recipient operates in (e.g. housing, leisure, travel) and hence an assessment whether the likelihood of default is higher due to anticipated challenges ahead within their sphere of operation.

Amounts arising from Expected Credit Losses

The introduction of IFRS 9 requires the Council to carry out an assessment of anticipated credit loss and create an appropriate provision.

Due to major curtailments in the airport operations as a result of the COVID-19 pandemic the Council has agreed to modify the terms of these loans and has accepted that under the unprecedented circumstances the airport can defer interest repayments for the following two financial years with catch up payments to be made

in instalments over a later period. It is expected that the next repayment will take place in October 2022. This has led to the creation of an Expected Credit Loss provision of £0.129m.

The value of the calculated provision for all other investments falls below the Council's materiality threshold and for this reason has not been included in the accounts.

Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services. The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

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

Investments in Equity Instruments designated as Fair Value through other Comprehensive Income

The Council has designated its Newcastle Airport equity instrument, as fair value through other comprehensive income under IFRS9 classifications. This decision protects Council taxpayers from any future movements in the value of these shareholdings until such time as the shares are sold or released.

Further information on the Council's interest in Newcastle Airport is disclosed within the Related Party Transactions note (see note 15).

Significant Observable Inputs – Level 3

The fair value for Newcastle Airport is based on a combination of the discounted cash flow of income method together with the guideline public company method of the market approach to valuations and other observable and unobservable factors. The last full valuation took place at 31 March 2019.

To factor in the impact of the COVID-19 pandemic a weighted average of forecast earnings before interest, depreciation, tax and amortisation (EBIDTA) has been derived and compared against existing EBIDTA prior to the pandemic in order to generate a downward revaluation in the share value. To ensure reasonableness this percentage has been compared against the movement in other world airports where the shares are actively traded.

Trading of shares only takes place when one or more of the LA7 or AMP Capital Investors Limited wishes to sell their shareholding. There are no plans to dispose of shares next year.

SCAPE

The Council has a shareholding in SCAPE System Build Ltd (representing 17% of the company's share capital). The shares are carried at a cost of £0.784m and have not been valued, as a fair value cannot be measured reliably. The company was formed in 2005. The Council has no current intention to dispose of the shareholding.
It has been decided to designate the SCAPE equity instrument, as fair value through other comprehensive income under IFRS 9 classifications. This decision protects Council taxpayers from any future movements in the value of these shareholdings until such time as the shares are sold or released.

Financial liabilities

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

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income

and Expenditure Statement is the amount payable for the year according to the loan agreement.

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

a. 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 seeks to minimise potential adverse effects on the resources available to fund services. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services 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 *CIPFA Treasury Management Code of Practice;*
- 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 five years limiting:
    - the Council's overall borrowing;
    - its maximum and minimum exposure to fixed and variable rates;
    - its maximum and minimum exposures within the maturity structures of its debt;
    - its management of interest rate exposure; 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 or before the start of the year to which they relate. 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 and a mid-year update.

The annual treasury management strategy which incorporates the prudential indicators was approved by Council on 21 March 2019 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2019/20 was set at £890m. This is the maximum limit of external borrowing or other long-term liabilities.
- The Operational Boundary was expected to be £865m. This is the expected level of debt and other long-term liabilities during the year.
- The management of fixed and variable interest rate exposure.
- The maximum and minimum exposures to the maturity structure of debt.
- Risk management is carried out by a central treasury team, under policies approved by the Council in the annual treasury management strategy. The Council provides written principles for overall risk management, as well as written policies (covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

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[8], 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 Council uses the creditworthiness service provided by Link Asset Services. This service uses a sophisticated modelling approach with credit ratings from

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

all three rating agencies - Fitch, Moody's and Standard & Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

a. credit watches and credit outlooks from credit rating agencies
b. credit default swap spreads to give early warning of likely changes in credit ratings

The Council's maximum exposure to credit risk in relation to its investments in financial institutions cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2020 that this was likely to crystalise.

As at 31 March 2020, £6.000m, or 5.6%, of the Council's deposits (31 March 2019: £25.000m or 32.3%) were held with financial institutions domiciled outside the UK:

	2018/19		2019/20	
Country of Domicile	**Amount £m**	**%**	**Amount £m**	**%**
Singapore	10.000	12.9	5.000	4.7
Canada	5.000	6.5	0.000	0.0
Germany	0.000	0.0	0.000	0.0
Sweden	0.000	0.0	0.000	0.0
Australia	10.000	12.9	1.000	0.9
	25.000	**32.3**	**6.000**	**5.6**

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:

2018/19		2019/20		
Net value £m		**Gross value £m**	**Impairment value £m**	**Net value £m**
77.411	Deposits with financial institutions	107.471	(0.026)	107.445
27.121	Long-term debtors	29.746	0.000	29.746
52.601	Short-term debtors	67.095	(11.666)	55.429

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 £11.666m (excluding council tax and business rates) is held on the Balance Sheet to provide against the risk of default on debt outstanding (£10.024m in 2018/19). In addition, the Council's Balance Sheet at 31 March 2020 held £50.096m (short-term) and £57.616m (long-term) relating to gross amounts owed for financial liabilities (£50.375m short-term and £60.676m long-term in 2018/19), representing amounts owed to customers (excluding HMRC, council tax and business rates); no impairment was required.

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, Link Asset Services, and focuses on the long-term investment grade rating issued to each financial institution by Fitch, S&P and Moody's. The highest possible rating is AAA and the lowest rating is BBB:

2018/19 £m	Rating	2019/20 £m
21.411	AAA	33.274
0.000	AA	29.000
25.000	AA-	6.000
23.000	A+	37.171
3.000	A	2.000
5.000	A-	0.000
77.411	**Total (excluding impaired investments)**	**107.445**

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 a comprehensive cash flow management system, as required by the CIPFA Treasury Management Code of Practice. This seeks to ensure that cash is available when needed.

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[9], 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 2020, 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:

a. monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
b. 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.

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 financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates - the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

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 Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

However, changes in interest payable and receivable on variable rate borrowing and investments will affect the General Fund balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together 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, fixed rate investments may be taken for longer periods to secure better long-term returns, similarly the drawing of longer-term fixed rate borrowing would be postponed.

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

According to this assessment strategy, at 31 March 2020, if all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

Interest rate sensitivity analysis		
2018/19 £m		**2019/20 £m**
0.110	Increase in interest payable on variable rate borrowing	0.269
(0.117)	Increase in interest receivable on variable rate investments	(0.241)
(0.007)	**Impact on the (surplus)/deficit on the Provision of Services**	**0.028**
(0.070)	Decrease in fair value of fixed rate investment assets	(0.000)
140.986	Decrease in the fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive income and Expenditure)	141.548

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed

Price risk: The Council does not generally invest in equity shares or marketable bonds. However, the Council does have shareholdings to the value of £8.595m, 2019/20 (£12.447m in 2018/19) in Newcastle International Airport and SCAPE. Whilst these holdings are generally illiquid, the Council is exposed to gains or losses arising from movements in the price of shares.

As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. Instead it only acquires shareholdings in return for "open book" arrangements with the company concerned so that the Council can monitor factors that might cause a fall in the value of specific shareholdings.

The shares have all been classified as Fair Value through Other Comprehensive Income, meaning that all movements in price will impact on gains and losses recognised in the Financial Instruments Revaluation Reserve. A general shift of 5% in the price of shares (positive or negative) would thus have resulted in a £0.624m gain or loss being recognised in the Financial Instrument Revaluation Reserve.

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

b. 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:

2018/19 £000s		**2019/20 £000s**
(2,321)	Interest and investment income	(2,604)
40,979	Interest payable and similar charges	24,302
38,658	**Total**	**21,698**

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 and debt maturity:

	Short-term		**Long-term**	
	31/3/19 £000s	**31/3/20 £000s**	**31/3/19 £000s**	**31/3/20 £000s**
Financial liabilities at amortised cost	(42,059)	(66,586)	(634,738)	(634,184)
Total borrowing	**(42,059)**	**(66,586)**	**(634,738)**	**(634,184)**
Loans and receivables	72,619	107,605	5,000	0,000
Investments at Fair Value through other Comprehensive Income and Expenditure:				
Unquoted equity investments	0,000	0,000	12,477	8,595
Total investments	**72,619**	**107,605**	**17,477**	**8,595**

The Available for Sale Financial Instruments Reserve historically contained the gains made by the Council arising from the increases in the value of its investments that had quoted market prices or otherwise did not have fixed or determinable payments. This reserve has now been replaced by the Financial Instruments

Revaluation Reserve.

The Financial Instruments Revaluation Reserve contains the gains made by the Council arising from increases in the value of its investments that are measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are:

a. revalued downwards or impaired and the gains are lost; or
b. disposed of and the gains are realised.

Financial Instruments Revaluation Reserve	
	2019/20 £000s
Balance at 1 April	12,477
Downward revaluation of investments through Other Comprehensive Income and Expenditure	(3,882)
Balance at 31 March	**8,595**

Analysis of financial liabilities at amortised cost			
Total outstanding at 31 March 2019 £000s		**Interest rates payable**	**Total outstanding at 31 March 2020 £000s**
	Source of loan		
(616,550)	Public Works Loans Board	1.93% - 13.75%	(645,541)
(60,246)	Other loan instruments	0.00% - 4.52%	(55,229)
(676,796)	**Total financial liabilities at amortised cost**		**(700,770)**
	An analysis of loan by maturity is:		
(42,058)	**Short-term borrowing**		**(66,586)**
(50,554)	Maturing in 1 – 2 years		(24,112)
(49,517)	Maturing in 2 – 5 years		(30,171)
(52,159)	Maturing in 5 – 10 years		(67,393)
(482,508)	Maturing in more than 10 years		(512,508)
(634,738)	**Long-term borrowing**		**(634,184)**
(676,796)	**Total borrowing**		**(700,770)**

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

Except for the financial assets carried at fair value (described under the Fair Value heading above), all other financial liabilities and financial assets are represented by amortised cost and long-term debtors and creditors 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: liabilities and financial assets represented by loans and receivables and long-term debtors and creditors 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 (level 2), using the following assumptions:

a. For loans from the PWLB payable, PWLB prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures. An additional note to the tables sets out the alternative fair value measurement applying the premature repayment rates , highlighting the impact of the alternative valuation.
b. For non-PWLB loans payable, PWLB prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures;
c. For loans receivable prevailing benchmark market rates have been used to provide the fair value;
d. No early repayment or impairment is recognised; and
e. Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount.

The financial liabilities are held with PWLB and market lenders. All of these investments and borrowings were not quoted on an active market and a Level 1 valuation is not available. To provide a fair value which provides a comparison to the carrying amount, we have used a financial model valuation provided by Link Asset Services. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments in the future in today's terms as at the balance sheet date. This is a widely accepted valuation technique commonly used by the public sector. Our accounting policy uses new borrowing rates to discount

the future cash flows.

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. This shows a notional future loss (based on economic conditions at 31 March 2020) arising from a commitment to pay interest to lenders above current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £778m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

Fair value of assets and liabilities carried at amortised cost				
	31 March 2019		31 March 2020	
	Carrying amount £000s	Fair value £000s	Carrying amount £000s	Fair value £000s
PWLB debt	(616,550)	(782,353)	(645,541)	(778,603)
Non-PWLB debt	(60,246)	(87,375)	(55,229)	(79,986)
Total financial liabilities	**(676,796)**	**(869,728)**	**(700,770)**	**(858,589)**
Market loans < 1 year	63,701	63,701	47,144	47,144
Market loans > 1 year	5,000	4,998	0	0
Total financial assets	**68,701**	**68,699**	**47,144**	**47,144**

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

	Principal £000s	Impairment £000s	Accrued interest £000s	Total £000s
Short term investments 2019/20:				
Fixed-term deposits	47,000	0	144	47,144
Impaired investment	26	(26)	0	0
	47,026	**(26)**	**144**	**47,144**
Short term deposits (cash equivalents)	60,445	0	16	60,461
Total	**107,471**	**(26)**	**160**	**107,605**
Short term investments 2018/19:				
Fixed-term deposits	63,500	0	201	63,701
Impaired investment	26	(26)	0	0
	63,526	**(26)**	**201**	**63,701**
Short term deposits (cash equivalents)	8,911	0	7	8,918
Total	**72,437**	**(26)**	**208**	**72,619**

27. Authorisation of Accounts for issue

The Council and Group's Statement of Accounts for the financial year ended 31 March 2020 will be approved, once audited, by the Accounts Committee and authorised for issue.

Signed:

Date: 2 November 2020

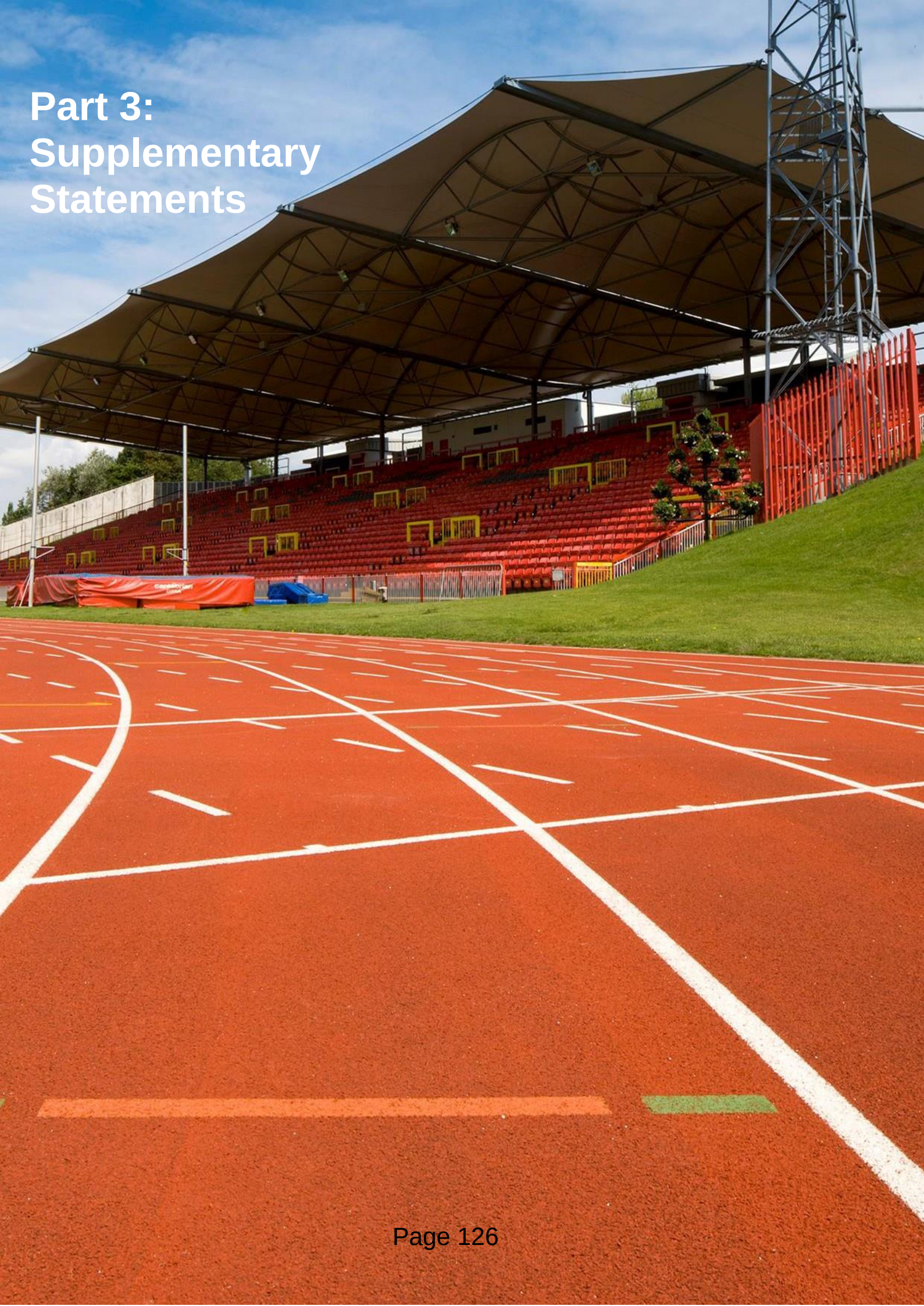
Darren Collins
Strategic Director, Resources and Digital & Borough Treasurer

Signed:

Date: 2 November 2020

Councillor Martin Gannon
Leader of the Council and Chair of the Accounts Committee

Part 3: Supplementary Statements



Housing Revenue Account (HRA)

HRA Income and Expenditure Statement

2018/19 £000s		2019/20 £000s	Note
	Expenditure:		
20,291	Repairs and maintenance	23,582	
14,899	Supervision and management	15,398	
3,529	Special services	3,669	
3,773	Rents, rates, taxes and other charges	4,129	
28,148	Depreciation and revaluation of non-current assets	14,811	4 & 6
65	Debt management charges	66	
637	Increased provision for bad or doubtful debts	672	
71,342		**62,327**	
	Income:		
(72,397)	Dwelling rents (gross)	(72,196)	
(1,346)	Non-dwelling rents (gross)	(1,331)	
(3,381)	Charges for services and facilities	(3,607)	
(409)	Leaseholders charges for services and facilities	(1,195)	
(1,327)	Contributions towards expenditure	(846)	
	HRA subsidy receivable		
(78,860)		**(79,175)**	
(7,518)	**Net Cost of HRA Services as included in the Council's Comprehensive Income and Expenditure Statement**	**(16,848)**	
295	HRA services' share of Corporate and Democratic Core	295	
(7,223)	**Net Income for HRA Services**	**(16,553)**	
	HRA share of the operating income and expenditure included in the Council's Comprehensive Income and Expenditure Statement:		
(976)	(Gain) or loss on sale of HRA non-current assets	(422)	
13,912	Interest payable and similar charges	13,355	
(334)	HRA Interest received and investment income	(225)	
87	Pension interest cost and expected return on pension assets	92	
0	Capital grants and contributions	0	
5,466	**(Surplus)/Deficit for the year on HRA services**	**(3,753)**	

Movement on the HRA Statement

2018/19 £000s		2019/20 £000s	Note
33,954	**Balance on the HRA at 1 April 2019**	**31,553**	
(5,466)	Surplus / (Deficit) for the year on HRA Income and Expenditure Statement	3,753	
3,065	Adjustments between accounting basis and funding basis under regulations	(4,271)	1
(2,401)	Net increase before transfers to reserves	(518)	
(2,401)	**Decrease in year on the HRA**	**(518)**	
31,553	**Balance on the HRA at 31 March 2020**	**31,035**	

Notes to the HRA

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

2018/19 £000s		2019/20 £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:	
(13,879)	Revaluation of non-current assets	240
0	Capital grants and contributions	0
0	Accumulated Absences Account adjustment (IAS19)	0
976	Gain/ (loss) on sale of HRA non-current assets	422
(170)	HRA share of contributions to or from the pensions reserve	(218)
0	Revenue expenditure funded from capital under statute (REFCUS)	0
9,997	Capital expenditure funded by the HRA	3,827
(14,269)	Transfer to the Major Repairs Reserve (see Note 7)	(15,051)
14,269	Transfer from the capital adjustment account	15,051
0	Other	0
(3,076)		4,271
	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:	
11	Amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	0
(3,065)	**Total adjustments between accounting basis and funding basis under the legislative framework**	**4,271**

2. Housing stock and Balance Sheet valuation

The number of council dwellings by type and valuation at 31 March 2020 was as follows:

31/03/19	Lettable stock numbers:	31/03/20
11,029	Houses	10,907
4,958	Flats	4,910
3,091	Bungalows	3,090
19,078		**18,907**
£000s	**Values:**	**£000s**
703,316	Council dwellings	726,122
7,300	Other land and buildings	6,220
47	Vehicle, plant, furniture and equipment	23
0	Assets held for sale	0
710,663	**Total Balance Sheet value of land, houses and other property in the HRA**	**732,365**

It should be noted that opening values are presented prior to any revaluations carried out during 2019/20 and taking effect from 1 April 2019.

3. Vacant possession value

The vacant possession value of the HRA dwellings at 1 April 2019 was £1.604bn this illustrates the economic cost to Government of providing council housing at less than open market rents when compared to the EUV-SH valuation £0.741bn at the same date. The EVU-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. 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:

2018/19 £000s		2019/20 £000s
14,035	Council dwellings	14,819
195	Other land and buildings	209
39	Vehicles, plant, furniture and equipment	23
14,269	**Total**	**15,051**

5. Capital expenditure

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

2018/19 £000s		2019/20 £000s
	Expenditure:	
29,026	Council dwellings	17,017
2,808	Other land and buildings	3,053
0	Vehicle, plant, furniture and equipment	0
31,834	**Total capital expenditure**	**20,070**
	Funded by:	
0	Borrowing	0
(4,910)	Capital Receipts Reserve	(1,000)
(2,659)	Capital grants	(192)
(9,997)	Direct revenue financing	(3,827)
(14,268)	Major Repairs Reserve	(15,051)
(31,834)	**Total funding**	**(20,070)**

6. Revaluations

The Council values its dwellings every year using the Existing Use Value for Social Housing basis. During the financial year, the valuation process resulted in a charge to the HRA of £0.240m relating to the reversal of previous losses (2018/19: a credit of £13.879m), as shown below:

2018/19 £000s		2019/20 £000s
	Revaluation losses / (reversals of previous losses) recognised in the HRA Income and Expenditure Statement:	
13,087	Council dwellings	(4,141)
792	Other land and buildings	3,901
	Impairments recognised in the HRA Income and Expenditure Statement:	
0	Council dwellings	0
0	Other land and buildings	0
13,879	**Total**	**(240)**

7. Major Repairs Reserve

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

2018/19 £000s		2019/20 £000s
0	**Opening Balance at 1 April**	**0**
(14,269)	Amounts transferred to MRR during the year:	(15,051)
0	Amounts transferred from the MRR during the year	0
14,269	Capital expenditure on land, houses & other property	15,051
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*:

2018/19 £000s		2019/20 £000s
	Credit:	
(334)	Interest on notional cash balance	(225)
13,879	Revaluation of non-current assets	(240)
13,545		**(465)**
	Debit:	
13,912	Interest on loans	13,355
14,269	Depreciation	15,051
65	Debt management expenses	66
0	Premiums for early repayment of debt	0
(13,879)	Revaluation of non-current assets	240
14,367		**28,712**
27,912	**Total item 8 debit**	**28,247**

9. Provision for Bad Debts

The movement in the provision for bad debts during the year was as follows:

2018/19 £000s		2019/20 £000s
3,383	**Opening Provision for Bad Debts at 1 April**	**3,843**
(177)	Bad debts written off in year:	(188)
637	Additional contributions to bad debt provision in year	672
3,843	**Provision for Bad Debts as at 31 March**	**4,327**

10. Rent Arrears

The total current and former tenant arrears at the end of the year is as follows:

31/03/19 £000s		31/03/20 £000s
4,626	Current Tenants	5,332
2,479	Former Tenants	2,885
7,105	**Total Arrears**	**8,217**

Collection Fund Statement

2018/19 £000s		2019/20 £000s Business rates	Council tax	TOTAL
	Income			
(98,836)	Income from council tax	0	(104,444)	(104,444)
(91,770)	Income from business rates	(92,672)	0	(92,672)
0	Reconciliation adjustments	0	0	0
(190,606)	**Total income**	**(92,672)**	**(104,444)**	**(197,116)**
	Expenditure			
	Apportionment of previous year surplus:			
0	Central Government	0	0	0
3,029	Gateshead Council	0	1,968	1,968
146	Tyne and Wear Fire and Rescue Authority	0	129	129
185	Northumbria Police and Crime Commissioner	0	93	93
3,360		**0**	**2,190**	**2,190**
	Precepts, demands and shares:			
39,695	Central Government	41,708	0	41,708
126,194	Gateshead Council	41,705	91,330	133,035
4,908	Tyne and Wear Fire and Rescue Authority	834	4,287	5,121
5,678	Northumbria Police and Crime Commissioner	0	6,994	6,994
1,830	Transitional protection payments payable	1,704	0	1,704
178,305		**85,951**	**102,611**	**188,562**
	Less charges to Collection Fund:			
1,060	Write-off of uncollectable amounts	1,346	504	1,850
(500)	Increase / (decrease) in bad debt provision	(220)	470	250
0	Increase / (decrease) in provision for appeals	0	0	0
282	Cost of collection	274	0	274
0	Reconciliation adjustments	0	0	0
842		**1,400**	**974**	**2,374**
(8,099)	**(Surplus)/deficit arising during the year**	**(5,321)**	**1,331**	**(3,990)**
6,126	**(Surplus)/deficit brought forward 1 April**	**524**	**(2,497)**	**(1,973)**
(1,973)	**(Surplus)/deficit carried forward 31 March**	**(4,797)**	**(1,166)**	**(5,963)**
	Attributable to:			
262	Central Government	(2,398)	0	(2,398)
(1,987)	Gateshead Council	(2,351)	(1,037)	(3,388)
(101)	Tyne and Wear Fire and Rescue Authority	(48)	(49)	(97)
(147)	Northumbria Police and Crime Commissioner	0	(80)	(80)
(1,973)		**(4,797)**	**(1,166)**	**(5,963)**

Notes to the Collection Fund Statement

1. 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% is paid to precepting bodies (50% to central government and 1% to the Tyne and Wear Fire and Rescue Authority).

2018/19		2019/20
49.3p	Multiplier - rate in the pound	50.4p
£221.903m	Total non-domestic rateable value	£221.124m

2. Council tax

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	
		2018/19	2019/20	2018/19	2019/20
Band A - Up to £40,000 (disabled reductions)	5/9	95	107	53	59
Band A - Up to £40,000	6/9	34,905	35,321	23,270	23,547
Band B - £40,001 to £52,000	7/9	10,261	10,335	7,981	8,038
Band C - £52,001 to £68,000	8/9	13,337	13,486	11,855	11,987
Band D - £68,001 to £88,000	9/9	5,148	5,187	5,148	5,187
Band E - £88,001 to £120,000	11/9	2,130	2,192	2,603	2,679
Band F - £120,001 to £160,000	13/9	771	792	1,114	1,144
Band G - £160,001 to £320,000	15/9	356	356	593	593
Band H - Over £320,000	18/9	15	15	30	30
		67,018	**67,791**	**52,647**	**53,264**

	2018/19	2019/20
Council tax for a band D property	£1,876.90	£1,970.58

Part 4: Accompanying documents

Annual Governance Statement 2019/20

Approved by Audit and Standards Committee on 20 July 2020

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 *Delivering Good Governance in Local Government:Framework*. A copy of the Code is on the Council's website at:

https://www.gateshead.gov.uk/article/3696/Local-Code-of-Governance

This statement explains how the Council and Group has complied with the Code and also meets the requirements of regulation 6(1) of the Accounts and Audit Regulations 2015.

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. Good governance combines robust systems and processes, such as risk management, financial management, performance management and internal controls, with effective leadership based on openness and strong ethical standards to create a culture that underpins the delivery of the Council's strategic approach, Making Gateshead a Place Where Everyone Thrives.

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.

The Governance Framework has been in place at the Council for the year ended 31 March 2020 and approval of the Statement of Accounts 2019/20.

The Governance Framework

The Council continually reviews and improves its Governance Framework and during 2019/20, it has been updated to take account of amendments to some of the references evidencing how the Council demonstrates compliance, including reference to the Leadership and Management Development Programmes.

The Council continues to face a number of challenges managing significant budgetary pressures, whilst meeting increasing demand as a consequence of demographic changes and a rapidly changing policy context. It is anticipated that the scale and depth of these changes will continue until at least 2021, so the Council needs to ensure it can adapt with pace and purpose to continue to provide the best possible services to its residents.

These challenges have been compounded by the impact of the COVID-19 pandemic which has increased demand for Council support, which has required both an immediate response to deal with the emergency and will also require longer term planning to ensure a review of lessons learned, an effective recovery and mitigating the financial impacts.

Organisational Structures

The Council's objectives are set out in the strategic approach, Making Gateshead a Place Where Everyone Thrives, which provides a framework to demonstrate how the Council will work and make decisions which will be policy and priority led. These are translated into five strategic priority areas:

- Economy
- Health & Housing
- Poverty and Inequality
- Climate Change
- Transport

These priorities are translated by Services into specific aims and objectives 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 has a corporate suite of strategic performance indicators to enable effective monitoring of the Council's strategic approach through which quality of service is measured via strategic outcome indicators. The Council's Corporate Management Team are leading on performance management with the continued development of a balanced scorecard for the Council, which will be scrutinised every two months. Performance is also monitored by Group Management Teams and SMG (Services and Performance) before being scrutinised on a six-monthly basis by Overview and Scrutiny Committees, who invite portfolio holders into OSC for performance discussions as per Council Protocol 28. A composite report is then presented to Cabinet for approval. The six month performance reports are published online on the Council's website.

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. Employees are also subject to a Code of Conduct and a number of specific policies 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 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. 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, Resources and Digital 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 2019/20, the Internal Audit Service was externally

assessed for compliance with Public Sector Internal Audit Standards. The outcome of the assessment was that the service is substantially compliant with the requirement of PSIAS and the CIPFA Application Note. There were some minor areas for continued improvement identified which were either actioned immediately or will be considered in 2020/21. All the areas have been included in an action plan, progress against which will reported to the Audit and Standards Committee. The results of the assessment were reported to the Audit and Standards Committee in June 2020.

The Council is committed to the training and development of all 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 Corporate Partnership Register is maintained which is updated by Strategic/Service Directors in a timely manner and then reviewed on an annual basis. A guidance document is available to Strategic/Service Directors to support the maintenance of the register. Examples of partnerships on the register include the Gateshead Health and Care System, Physical Disability and Sensory Impairment Partnership, Local Safeguarding Children Board, Health and Wellbeing Board and the South Tyne & Wear Waste Management 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.

The Gateshead Housing Company, the Council's arms length management organisation, is responsible for managing Council housing stock on behalf of the Council. They play a significant role in delivering the Council's priority outcomes. The Council and Housing Company share most core systems of control including the finance system, and their internal audit services are provided by the Council. The Company has its own Board, Audit Committee and Strategic Risk Register. The main features of their governance and internal control arrangements are assessed each year and reported to the Company's Resources, Audit and Performance Committee by way of a Report of the Managing Director on the Statement of Internal Control, and their accounts have been consolidated into the Council's group accounts on a line by line basis.

To ensure governance arrangements continued to be effective and fit for purpose during the COVID-19 emergency the following key actions were taken:

- Command and control arrangements implemented and communicated, and Local Resilience Forum and Tactical Group established
- Cabinet delegation of Executive decision making by way of Cabinet report presented on 24 March 2020 for a temporary additional delegation be granted to the Chief Executive, all Strategic Directors, and in their absence the relevant Service Director, to deal with executive decisions that would normally be considered by the Cabinet, to minimise the business to be transacted at meetings associated with the Corona virus pandemic. All key decisions taken under these powers recorded.
- Terms of reference for Strategic and Tactical levels of command in place and periodically reviewed
- Battle Rhythm – Strategic CMT met twice daily weekdays during the emergency response phase to ensure timely decision making
- Tactical Group operated daily (weekdays) to implement decisions from CMT
- Community Shielding Hubs implemented to coordinate identification of demand and delivery of support.
- Business Impact Assessments reviewed, and Business Continuity Plans developed for all critical activities to minimise the risk of interruptions in the delivery of those activities.
- Key decision making meetings with Councillors conducted remotely using virtual conferencing technology
- Temporary portfolios established to focus on the Council's priorities during the response to the emergency:
    - i. Human Resources, Finance, Customer Experience and Communications (Internal Resources)
    - ii. Communities and Economy (including businesses, food distribution, shielding hubs and vulnerable people)
    - iii. Housing, Environment and Transport (including waste, public transport and use of public space)
    - iv. Children (social care and schools / education)
    - v. Adults (social care and wellbeing)
- A COVID performance Dashboard is compiled on a weekly basis to provide strategic indicators to CMT to inform decision making and monitor performance.

Review of Effectiveness

The Accounts and Audit Regulations 2015 and the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework have established requirements that all local authorities must adhere to in relation to governance arrangements. The Council must ensure that it has a sound system of internal control which:

- Facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- Ensures that the financial and operational management of the Council is effective; and
- Includes effective arrangements for the management of risk.

The Council must, each financial year, conduct a review of the effectiveness of the system of internal control and to include the results in an Annual Governance Statement which accompanies the Statement of Accounts.

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

- The opinion of the Members of the Cabinet;
- The work of senior managers within the Council who have responsibility for the development and maintenance of the governance environment;
- An assessment of the Systems of Internal Audit, incorporating a review of the Internal Audit Service and the Audit and Standards Committee, and the Chief Internal Auditor's annual report;
- Corporate Risk Management arrangements;
- The robustness of Performance Management and Data Quality information;
- Views of the external auditor and other external inspectorates;
- Assurance from the Strategic Director, Corporate Services and Governance on the operation of Council's Legal and Regulatory Framework;
- Assurance from the Strategic Director, Resources and Digital on the operation of the Council's financial controls;
- Partnership governance arrangements; and
- Counter fraud and corruption 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 27 January 2020. Assurance was sought from Councillors who served on the Cabinet during 2019/20, in the form of a self-assessment statement, on the effectiveness of the Council's corporate governance arrangements. A report was presented to the Audit and Standards Committee on 20 July 2020 in which all Members of the Cabinet considered that governance arrangements are effective.

Service Directors 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 considerations of the effectiveness of internal controls. A report was presented to the Audit and Standards Committee on 20 July 2020 which concluded that, based on the self- assessments, Service Directors agree that effective controls were in place.

The Chief Internal Auditor reports to the Council's Strategic Director, Resources and Digital, but to ensure independence has direct and unfettered access to the Chief Executive, the Strategic Director, Corporate Services and Governance (Monitoring Officer), and the Chair of 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 20 July 2020. This included an assessment of compliance with the CIPFA Statement on the Role of the Head of Internal Audit (2019) and compliance with Public Sector Internal Audit Standards. This review 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 20 July 2020. This opinion is based on 87 audit reviews undertaken during the year which found all systems reviewed to be operating well or satisfactorily, except in 14 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 2019/20 as a result of the work of the Internal Audit Service.

The Council's Chief Internal Auditor is also the Chief Internal Auditor for the Gateshead Housing Company, and on this basis provides an independent opinion on the adequacy of the Company's internal control systems based

on the Internal Audit reviews carried out during the year. Based on evidence arising from Internal Audit activity during 2019/20, the opinion of the Chief Internal Auditor reported to the Housing Company's Resources, Audit and Performance Committee 8 July 2020 is that the Company's internal control systems are considered to be effective. This opinion forms part of the Company's Managing Director's report on the Statement of Internal Control to the Resources, Audit and Performance Committee on 8 July 2020.

The Annual Risk Management Report was presented to the Audit and Standards Committee on 20 July 2020 which concluded that risk management arrangements are effective.

The Annual Report on Counter Fraud Arrangements was presented to the Audit and Standards Committee on 20 July 2020 which concluded that counter fraud 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 in accordance with the Council's performance management framework. Based on the information provided during the year and internal reviews of data quality, effective controls are in place.

No work undertaken by external bodies or inspectorates during the year identified weaknesses in internal controls or governance arrangements.

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 2019/20. To further strengthen compliance it is planned to conduct a review of lessons learned from the Council's response to COVID-19, including the Constitution.

Assurance on the effectiveness of the Council's financial controls has been provided by the Strategic Director, Resources and Digital (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 Service areas 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. The corporate guidance on managing partnerships effectively was updated in 2014 and is reviewed on an annual basis. The consensus amongst Service Directors was that all Partnership Arrangements have been established in compliance with the Council's Guide to Partnership Working. In addition, the most recent review of this area by the Internal Audit Service found it to be operating well.

A report to Cabinet 24 March 2020 informed on the outcome of the comprehensive review of the delivery model for the Council's housing stock and sought approval to develop a detailed business plan to implement the preferred option – the management and maintenance of the Council's housing stock is re-integrated within the Council. This is to include a review of all services currently provided by TGHC and include relevant Council services to ensure the most efficient and effective delivery model.

The evidence set out in the COVID-19 Performance dashboard provided assurance that activities were delivered effectively during the COVID-19 emergency and had a positive impact on outcomes. At the appropriate time a review of lessons learned from the response to COVID-19 will be conducted to inform future responses and further strengthen resilience.

Actions Taken to Improve Governance Following Previous Annual Governance Statement

Governance Issue	Planned Action	Action Taken	Outstanding Matters
Strengthen Council arrangements for oversight and performance monitoring of The Gateshead Housing Company.	The Council will work with both the Regulator of Social Housing and The Gateshead Housing Company (TGHC) to improve governance, oversight and performance monitoring of TGHC to	A co-located compliance team has been set up to provide compliance advice, oversight and scrutiny to Gateshead Council. The team includes technical officers to review operational compliance, fire and building safety resource and compliance officers carrying out detailed reviews and system change.	Continue to work with The Regulator to give assurance that all areas of non-compliance are progressing in line with the detailed action plan. Ensure that an appropriate

	ensure compliance with relevant Regulations and provide assurance for tenants.	Work has commenced on the improving the scope and timeliness of management and performance reporting to ensure more effective oversight and performance monitoring, supported by an external consultant. A monthly progress meeting takes place between the Council and The Regulator to give assurance that all areas of non-compliance are progressing in line with the detailed action plan. Where there is deviation from the action plan the Council will provide explanation, mitigation and risk assessment of any areas of non-conformance. Consultation commenced on the future delivery model for the management of the Council's housing stock, including the recommended option of reintegration within the Council.	Governance framework is in place to support both the decision on the future model of delivery and implementation of the chosen model itself.
Updated CIPFA Statement on the Role of the Head of Internal Audit	The Council's organisational arrangements for internal audit to be evaluated to consider the extent to which they align with the principles of the updated CIPFA guidance in this area.	Organisational arrangements for Internal Audit were evaluated, and The Chief Internal Auditor's Self-Assessment which forms part of the Framework of Assurance of the Governance Arrangements was amended to reflect CIPFA's updated guidance to ensure the evaluations takes account of the relevant principles.	None

Action Plan 2020/21

Governance Issue	Planned Action	Responsible Officer
Strengthen Council arrangements for oversight and performance monitoring of management of housing stock and housing services to realise Council policies and objectives in relation to the Housing Strategy.	Continue to work with the Regulator to give assurance that all areas of non-compliance are progressing in line with the detailed action plan. Ensure that an appropriate Governance framework is in place to support both the decision on the future model of delivery and implementation of the chosen model itself.	Corporate Management Team Strategic Director, Corporate Services & Governance
Resilience	A review of lessons learned from the response to COVID-19, including the Council's Constitution to be conducted.	Corporate Management Team

Opinion on Governance Arrangements

Based on the review of the Council's governance arrangements during 2019/20, including the internal control and risk management environments, the opinion is that the Council's governance arrangements continue to be regarded as fit for purpose.

Based on the review of the arrangements introduced to strengthen governance to support the Council's response to the COVID-19 emergency, the opinion is that the Council's governance arrangements continued to be fit for purpose during that period.

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 on 20 July 2020 and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

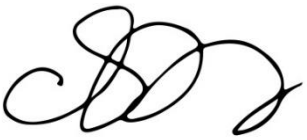
Signed:

Councillor Martin Gannon

Leader of the Council

Dated: 21 July 2020

Signed:



Sheena Ramsey

Chief Executive

Dated: 21 July 2020

Independent Auditor's Report

to the Members of Gateshead Council

To be added post-audit

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 Council has indicated to other parties that it will accept certain responsibilities, and as a result, the Council 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 assets arising from past events, whereby their existence can only be confirmed by one or more uncertain future events not wholly within the control of the Council.

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.

Contingent rents are lease payments that changes as a result of changes occurring subsequent to the inception of the lease, other than the passage of time (such as indexation of a long-term contract).

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 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 2020/21 council tax bill in 2019/20).

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.

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.

Expected Credit Loss: the authority recognises expected credit losses on all of its financial assets either on a 12-month or lifetime basis. Losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations.

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.*

FRAB (Financial Reporting Advisory Board) is a board established in 1996, with HM Treasury oversight, to promote the highest possible standards in financial reporting across government.

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.

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.*

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.

Inventories 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.

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.

LASAAC: the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) develops and promotes proper accounting practice for local government in Scotland, and is the co-developer of the Code of Practice.

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[10].

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

[10] See http://www.twpf.info for further information

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 Reserve *see Note 6b.*

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 Council for services provided in their capacity as elected members or otherwise as employees of the Council.

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.

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.

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.

Thrive: the Council's strategic approach, Making Gateshead a place where everyone thrives, is driving the major policy directions, aiming to redress the imbalance of inequality, championing fairness and social justice.

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.

Variance is the difference between the budgeted revenue and expenditure amount and the actual revenue and expenditure amount.

Contacts

Primary contacts:

Chief Executive:	**Sheena Ramsey**
Chief Financial Officer:	**Darren Collins**
Leader of the Council:	**Councillor Martin Gannon**
Audit and Standards Committee Chair:	**Councillor Marilyn Charlton**

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
Newcastle Airport	www.newcastleairport.com

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Gateshead Council

AUDIT AND STANDARDS COMMITTEE
19 OCTOBER 2020

TITLE OF REPORT: **Treasury Management – Performance to 30 September 2020**

REPORT OF: **Darren Collins – Strategic Director, Resources & Digital**

Purpose of the Report

1. The purpose of this report is to review Treasury Management performance for the six months to 30 September 2020, covering investments and borrowing. This is consistent with approved performance management arrangements.

Background

2. The mid-year performance of the Treasury Management Service is reported in line with CIPFA's Code of Practice on Treasury Management and the Council's Treasury Policy Statement and Treasury Strategy which was approved by Council on 16 July 2020.

3. The Council operates a balanced approach, and this means broadly that cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing security and adequate liquidity initially before considering optimising investment return.

4. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations.

5. Accordingly, treasury management is defined as:

   "The management of the Council's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

6. The primary objective of the investment strategy is to safeguard the Council's assets with a secondary objective of obtaining an optimum rate of return on investments and minimising the costs of borrowing.

Investment Performance

7. The latest projection of gross investment income for 2020/21 based on interest earned to date and expected interest to March 2020 is £0.391m, compared to an original estimate of £0.663m.

8. This gross investment interest is adjusted to account for £0.326m interest payable to third parties and interest receivable of £1.053m from various third parties. This gives a projected net interest to the General Fund 2020/21 of £1.118m compared to the budget of £1.855m. The variance to budget is mainly as a result of interest on loan notes due from Newcastle International Airport which will not be received this year due to a curtailment in operations of the airport as a result of COVID-19 as well as reduced returns on investments as a direct result of a cut in the Bank of England base rate. This is partially offset by higher levels of interest received on loans to third parties than was anticipated when the 2020/21 budget was set.

The Economy

9. The coronavirus outbreak has created huge economic damage to the UK and around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its last meeting on 6th August, although some forecasters had suggested that a cut into negative territory could happen. No increase in Bank Rate is expected prior to 31st March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.

Rate of Return

10. The average rate of return is monitored for each investment type the Council enters into and these are used to calculate an average rate of return for the year to date. The current rate of return is 0.42%, which is less than the original estimate of 0.91%.

11. The quarterly LINK Asset Services Investment Benchmarking report assesses both the rate of return and the risk of the counterparty to calculate a weighted average rate of return, which is used for comparison across Local Authorities. In the most recent report received, June 2020, the Council achieved a weighted average rate of return of 0.35% on its investments for Quarter 1 2020/21 which is in line with the risk adjusted expectations (0.32% to 0.53%) defined in the Benchmarking Report for our Group.

12. The rate of return would be expected to decrease during the year as investment balances reduce and deposits are replaced for shorter terms with lower yielding returns.

13. It is currently a difficult investment market it is now not possible to earn the level of interest rates commonly seen in previously as all investment rates up to 12 months are either negative or just above zero now that Bank Rate is at 0.10%. Given this risk environment and the fact that increases in Bank Rate are unlikely to occur before the end of the current financial year 31st March 2023, investment returns are expected to remain low.

Borrowing

14. The total borrowing for the Council and HRA as at 30 September 2020 was £664.206m, which was within the operational borrowing limit of £865m. This borrowing is made up of £616.206m Public Works Loans Board (PWLB) loans and £48m market loans.

15. The Treasury Strategy estimates for the 2020/21 financial year were based on a borrowing requirement of £98.181m however, due to the uncertainty surrounding COVID-19 £30.000m of long term PWLB borrowing was taken in March 2020 which reduced the need for borrowing in the current financial year and subsequently no further borrowing has been taken in the year to date. The timing of further borrowing will depend on a combination of cash flow requirements to support the capital programme and achieving preferential borrowing rates.

16. The current forecast for interest payable on borrowing is allocated to the General Fund and the Housing Revenue Account (HRA) as shown in the following table:

	General Fund	**HRA**
Interest Payable	£11.915m	£13.047m
Average rate of interest	3.39%	3.83%

This represents a gross saving of £1.363m on the original estimate, of which £1.064m is a saving for the General Fund and £0.299m is for the HRA.

PWLB Government Intervention

17. PWLB lending is offered at a fixed margin above the Government's cost of borrowing, as measured by gilt yields. The Treasury raised the margin over gilts to 100bps (one percentage point) on 9th October 2019 and agreed to monitor the impact of the change and keep rates policy under review.

18. The Government undertook a consultation exercise on PWLB borrowing which closed on 31st July 2020.

19. The Treasury are proposing that they will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream. It is possible that the non-HRA Certainty Rate will be subject to revision downwards after the conclusion of the PWLB consultation; however, the timing of such a change is currently an unknown, although it would be likely to be within the current financial year.

Summary of Mid-Year Performance

20. The projected net impact of investment and borrowing activity on the revenue budget in 2020/21 is an underspend of £0.576m, comprising £0.327m General Fund and £0.249m HRA.

General Fund	**Estimate £m**	**Projected Outturn £m**	**Variance £m**
Investments	(1.855)	(1.118)	0.737
Borrowing	12.979	11.915	(1.064)
Premia	0.462	0.462	0.000
Net Position	11.586	11.259	(0.327)

21. Investment returns are likely to remain relatively low during 2020/21 and beyond and interest rates are expected to be below long term borrowing rates therefore value for money considerations indicate that best value can be obtained by delaying new external borrowing and by using internal cash balances to finance new capital expenditure in the short term (this is referred to as internal borrowing).

22. The current approach of borrowing internally provides benefits in terms of reduced credit risk, as the Council has less cash invested than if it had gone to the markets and borrowed externally. This means that cash balances and investment returns, are historically low resulting in reduced levels of income, which at present is outweighed by the savings achieved from avoiding external borrowing. The additional element of interest rate risk will continue to be monitored.

Recommendation

The Committee is requested to note the Treasury Management Performance to 30 September 2020, prior to submission to Cabinet.

Gateshead Council

AUDIT AND STANDARDS COMMITTEE
19 OCTOBER 2020

TITLE OF REPORT: **Achievement of 'Going Concern Status' 2019/20**

REPORT OF: **Darren Collins, Strategic Director, Resources and Digital and Borough Treasurer**

Purpose of the Report

1. The purpose of this report is to consider the Council's status as a going concern and request Committee to agree this.

Background

2. As Local Authorities are created and abolished only by statutory changes there is an underlying assumption in the 2019/20 CIPFA/ LASAAC Code of Practice on Local Authority Accounting (Accounting Code) that their accounts will be prepared on a going concern basis.

3. Authorities are required by Section 32 of the Local Government Finance Act 1992 to set a balanced budget. However, financial pressures within the local government sector mean that the Chief Finance Officer (section 151 officer) may need to consider whether action is required under section 114 of the 1988 Act, where the section 151 officer must report, following consultation with the council's monitoring officer, to all authority's Councillors if they believe expenditure is likely to exceed incoming resources in the current or in any future year.

4. This report outlines the assessment of the Council's status as a going concern in line with best practice.

Context

5. The provisions in the Accounting Code on the going concern accounting requirements reflect the economic and statutory environment in which local authorities operate These provisions confirm that local authorities have no ability to cease being a going concern as described by IAS 1 Presentation of Financial Statements. As local authorities cannot be dissolved without statutory prescription, it would not be appropriate for the Council's financial statements to be prepared on any other than a going concern basis.

6. Although the financial context continues to be challenging and uncertain the Council has a track record of meeting its financial obligations and maintaining financial sustainability. In the past 8 years the Council has delivered an outturn within its original budget. A Council wide approach to the budget, which is priority driven and over a medium-term planning horizon will ensure that this continues to be the case.

7. The Annual Audit Letter from Mazars includes a value for money conclusion, which considers the identification, monitoring and achievement of savings. The last letter

issued in relation to 2018/19 concluded that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Current Position- 2019/20

8. Council agreed the original revenue budget for 2019/20 on 21 February 2019. This was set at £206.999m. This was subsequently revised to £207.262m on 20 November 2019 following the receipt of additional better care funding of £0.263m. The overall service revenue outturn for 2019/20, including transfers to and from reserves and financing, results in an under spend of £0.237m (0.1%). As previously reported the Council has received a refund of VAT in relation to Leisure Services of £3.893m. The Council's stated intention in relation to this one-off benefit has been to transfer this into the General Reserves to support the MTFS. When added to the monitoring position outturn this results in an overall Council revenue position for 2019/20 of a surplus of £4.130m.

9. The final capital outturn position is an underspend of £14.4m when compared to the revised budget of £93.9m.

10. Revenue and capital monitoring is reported on quarterly basis to Cabinet as per the budget framework.

11. Council agreed the original Housing Revenue Account (HRA) budget for 2019/20 on 24 January 2019. This was set as a net deficit of £8.382m funded from planned use of reserves. The HRA outturn is a £0.519m use of reserve, compared to the budget, this is a reduction of £7.864m. The HRA is ring-fenced and does not form part of the General Fund reserve.

12. The Statement of Accounts for 2019/20 have been prepared and the health of the balance sheet has been assessed and the key points are as follows:

    - The general reserve has decreased by £3.749m to £11.058m, and this represents 5% of the 2019/20 revenue budget.
    - Schools reserves have decreased by £0.770m to £5.479m.
    - Useable revenue reserves have increased by £7.025m to £59.929m as at 31 March 2020.
    - The useable reserves balance increases to £120.762m when the HRA (£31.035m) and capital receipts/ grants (£29.799m) balances are added to the revenue reserves.
    - Long Term Assets have increased from £1,422m to £1,445m due to an increase in the value of Property, Plant and Equipment.
    - Current Assets have increased from £143m to £189m mainly due to an increase in cash and cash equivalents.
    - Current Liabilities have increased from £116m to £151m mainly due to an increase in current borrowing.
    - Long Term Liabilities have decreased from £1,288m to £1,233m mainly as a result of a decrease in pension liability.
    - Net Assets have increased from £161m to £250m.

13. The accounts have also been prepared on a Group basis incorporating The Gateshead Housing Company. The net assets of the group as a whole have increased from £115m to £200m.

14. A breakdown of the £59.9m revenue reserves as at 31 March 2020 is shown in the following table:

Reserves	Mar-20 £000s
General Fund	
General Reserve	**(11,058)**
LMS Budget Share Reserve*	**(5,479)**
Total General Fund Reserve	**(16,537)**
Earmarked Reserves	
Strategic Reserves	
Financial Risk and Resilience	(14,161)
Economic, Housing and Environmental Investment	(8,404)
Poverty, Health and Equality Investment	(7,293)
Ring Fenced Reserves	
Developers' Contributions*	(1,762)
DSG Reserve*	(1,212)
Unapplied revenue grants*	(8,909)
Public Health Reserve*	(1,650)
Total Earmarked Reserves	**(43,391)**
Total Reserves	**(59,928)**
Total Ring fenced*	(19,012)
Non Ring-fenced and Available to support the Budget	(40,916)
	(59,928)

15. The draft statement of accounts includes the Annual Governance Statement which was approved by the Audit and Standards Committee on 20 July 2020 following the Committees review of the evidence of assurance provided on the Council's internal controls, risk management and governance arrangements. The statement concluded that the Governance arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Future Position- 2020/21 Budget

16. Council agreed the original revenue budget for 2020/21 on 27 February 2020. This was set at £220.761m, the budget was balanced by increasing council tax by 3.99% (1.99% council and 2% ASC precept) and budget savings of £0.451m. The budget was balanced without any budgeted use of the general reserve.

17. The original budget for the capital programme for 2020/21, as agreed by Council on 25 February 2020, totalled £110.475m.

18. Due to the pandemic changes to both the revenue and capital budgets were reported to Cabinet on 15 September 2020.

19. The pandemic has had a substantial financial impact on the Council's in year revenue position. The projected revenue outturn for 2020/21 as at 30 June 2020 was £245.839m compared to the budget of £220.761m, resulting in a projected overspend of £25.078m. This overspend is mitigated by additional grant funding (COVID, Public Health and Better Care Funding) resulting in an overall projected overspend of £8.014m. The projection for the year also includes the application of £0.950m of reserves consistent with agreed usage. Ongoing actions to mitigate the budget shortfall were presented in the report. In addition, in early July the Government announced a scheme for reimbursement of irrecoverable fees and charges which will reduce the projected overspend.

20. Cash has been managed to ensure a positive cash flow throughout the pandemic and this continues to be the position projected forward.

21. Slippage of £14.057m was identified on capital budgets at the first quarter on several key schemes which have been carried forward into 2020/21 with resources from the 2019/20 financial year. In addition, the report proposed £10.193m increase including the re-profiling of allocations to reflect the final funding settlement and to support business critical activity and recovery timelines

22. The revenue and capital budgets will be monitored monthly by Senior Officers and quarterly by Cabinet with any changes to budgets agreed by Council.

23. The Council's General Reserve stands at £11.058m. This is 5% of the revenue budget which meets MTFS principles and reserve policy.

Future Position- Medium Term Financial Strategy (MTFS)

24. The current MTFS covers the period 2020/21 to 2024/25 and this estimates a funding gap of £49.925m over the five-year period. The MTFS estimates are currently being refreshed and will be reported to October Cabinet.

25. In order to meet this challenging funding gap, work has already started on planning an approach to the 2021/22 budget. This work will focus on the implementation of the Council Thrive Policy agenda and the four areas of the Council's financial strategy: economic growth, income generation, managing demand and efficiencies/ savings.

26. During 2020 the Council and its residents have been impacted by the COVID-19 Public Health crisis. The lives and livelihoods of all residents have been severely affected by the impact of the Coronavirus pandemic and the measures that have been put in place to control the infection. From a financial perspective some of the cost pressures and loss of income will have both an immediate and longer-term impact on the council finances. As a result, it is likely that the Council will accelerate current work on a priority driven approach to the Budget that will deliver outcomes consistent with Thrive principles.

27. The Council acknowledges that it will be difficult to continue to deliver substantial savings without significant changes in the way we deliver services and therefore reserves have been maintained to assist transition and mitigate future risk. Reserve levels and use will be kept under review and reported to Cabinet.

28. The MTFS is reviewed at least annually to ensure Members are aware of the latest estimated future financial position of the Council. The last review was considered by Cabinet in October 2019 and this covered the period 2020/21 to 2024/25. The review incorporated estimated demand pressures facing the Council, projected funding reductions and performance of the Council in delivering budgets. The outcome of the latest review will be reported to Cabinet October 2020.

29. The Council aims to ensure that reducing resources are used to maximum effect and allows the council to continue to deliver new and better ways of working and invest to improve the efficiency of services provided. It is evident however the continuing reductions in funding and increases in demand will have an inevitable impact on both the nature and scope of services that the council is able to deliver. The council will aim to manage the process of change to its services effectively.

30. Due the pandemic emerging priorities are providing support into communities, moving services to digital and supporting the voluntary and community sector. It may be that decisions on priority areas are brought forward and addressed now.

31. The Council will also actively look to streamline its processes in order to support effective decision making and make the best use of available capacity. Opportunities for working in collaboration and partnership and different ways of working will be identified and developed where this will support the delivery of the council's outcomes and improve service efficiency and delivery. This will include working collaboratively with key partners to share costs or transfer responsibilities.

32. The Council has an ambitious capital strategy and its key investment aspirations are based on the principle of invest to save, with a rate of return over the life of the assets, generating income streams which contribute to Council services, the local economy and further investment.

33. The HRA 30-year Business Plan specifically assesses the future sustainability of the HRA and is reviewed at least twice a year as part of budget setting and final accounts. The economic uncertainties' and market volatility caused by COVID-19 are being assessed by management monthly and it is estimated that the HRA reserve of £31.035m will not fall below its minimum recommended balance of £3m until 2025/26.

34. Future risks for the Council include the ongoing impact of the COVID-19 public health crisis, the continued reduction in central government funding, increasing demand for Adult and Children's Social Care, the uncertainty concerning the possible move to 75% business rate retention, and the impact of the UK vote to leave the EU. These risks will continue to be monitored by Senior Officers and Cabinet.

Conclusion

35. Based on the assessment undertaken, the Council's Chief Finance Officer (section 151 officer) view is that the Council is aware of the challenges it faces and is prepared to deliver its services in the future taking account of the future known risks and therefore the Council is a going concern and the Statement of Accounts should be prepared on that basis.

Recommendation

36. It is recommended that the Committee agrees that the Council is considered to be a going concern based on the assessment in this report and that the accounts are prepared and approved on that basis.

CONTACT: **Darren Collins** extension: 3582

Audit & Standards Committee
19 October 2020

Title of Report: **Annual Report to Cabinet and Council: 2019/20**

Report of: **Darren Collins, Strategic Director, Resources & Digital**

Purpose of the Report

1. The Committee's terms of reference require it to submit an annual report to the Cabinet and Council, and further reports and recommendations as it sees fit. The Committee is asked to consider the issues discussed during 2019/20 for inclusion in a report to Cabinet and Council.

Background

2 The Annual Report to Cabinet and Council 2019/20 allows the Audit and Standards Committee to demonstrate the positive impact of its work through providing effective challenge across the Council. This includes providing assurance on the Council's arrangements for:

- Maintaining effective internal control;
- Risk management; and
- Reporting on financial and other performance.

Contents of the Report

3 Appendix 1 includes the details of activity which the Committee has covered over the last year for consideration for inclusion in the report to Cabinet and Council.

4 The Audit and Standards Committee has received reports in the following areas:

- Internal Audit Planning Performance and Activity;
- Internal Audit Charter;
- Internal Audit Annual Report:
- Local Government Ethical Standards:
- Annual Internal Audit benchmarking results;
- Internal Audit recommendations;
- External Audit planning, performance and activity;
- Corporate Risk Management and Resilience activity;
- Counter Fraud Updates;
- The Annual Governance Statement Assurance Framework;

- The Annual Governance Statement and supporting evidence;
- Annual Audit Letter;
- Achievement of Going Concern Status;
- Audit Completion Report and Council Statement of Accounts;
- Treasury Management Policy & Strategy and mid-year update;
- Annual Treasury Management Annual Report;
- Local Code of Governance;
- Training & Development; and
- Internal Audit Service – Compliance with Public Sector Internal Audit Standards.

5 Based on the evidence presented during the year and at the meeting of the Committee on 20 July 2020 it was concluded that the Council's system of internal control and governance framework is effective. This was demonstrated through the approval of the Annual Governance Statement for 2019/20, which accompanies the Statement of Accounts.

Recommendation

6 The Committee is asked to agree the draft report to Cabinet and Council at Appendix 1.

Contact name: Craig Oakes Ext. - 3711

Appendix 1

Contents of the Report to Cabinet and Council – 2019/20

1. The areas of activity considered by the Audit and Standards Committee during 2019/20 are set out below.

Internal Audit planning, performance and activity

2. As at 31 March 2020 98%% of the Internal Audit Plan was completed, which resulted in 86 audit reports. Of these reports 72 (84%) found systems to be operating well or satisfactory, with 14 (16%) reporting systems having significant weaknesses, of which four were in relation to schools.

3. All recommendations are followed-up as part of the Internal Audit process and the Audit and Standards Committee will monitor the outcomes.

4. Based on this evidence arising from planned Internal Audit activity during 2019/20, the Council's internal control systems and governance and risk management arrangements are considered to be effective.

5. The Internal Audit Service has also co-ordinated the Council's National Fraud Initiative (NFI) work and has supported Council managers with irregularity, e-mail, internet and other disciplinary investigations on an ongoing basis during 2019/20, with quarterly updates to Audit and Standards Committee.

6. Other reports received during 2019/20 relating to Internal Audit included the CIPFA Benchmarking Results for 2018/19. The Audit and Standards Committee also approved the Audit Strategy and Plan.

7. The Audit and Standards Committee will continue to monitor Internal Audit's progress on a quarterly basis against the 2020/21 Audit Plan.

Review of Internal Audit Charter

8. The Internal Audit Charter is reviewed annually, and the outcome is reported to the Audit and Standards Committee as part of the Internal Audit Strategy Statement and Annual Plan to seek comments and approval in line with Best Practice. The Chief Internal Auditor carried out the annual review and confirmed that it continues to reflect best practice and no amendments were required.

External Audit planning, performance and activity

9. The following external audit reports have been reviewed over the year:

- 2018/19 Audit – Additional Fee
- Audit Strategy Memorandum Year Ending 31 March 2020.

10. The Committee was also asked to consider how it exercises oversight of certain key management processes in relation to some specific areas of governance with a potential to impact upon the financial statements during 2019/20. This was a requirement to satisfy the external auditors that such oversight was in place in order to comply with International Auditing Standards. The Committee agreed that an effective level of oversight was in place.

Corporate Risk Management and Resilience activity

11. The Committee received quarterly reports on the assurance derived from risk management. These reports make Councillors aware of the arrangements that exist within the Council for managing risk, the impact that these have had and the plans for further development of risk management arrangements.

Counter Fraud Update

12. The Committee received a report every six months updating on activity undertaken in relation to the work of the Corporate Fraud Team summarising performance against the Counter Fraud and Corruption Strategy and the effectiveness of the Strategy. Conclusions also form part of the Annual Governance Statement.

Standards Update

13. The Committee received quarterly reports which highlighted national and local standards issues, raised Member awareness of national reviews and consultations which may be relevant to their role and identified whether further Member training was required.

The Annual Governance Statement and supporting evidence

14. The Annual Governance Statement for 2019/20 concluded that based on the review of the Council's governance arrangements during 2019/20, including the internal control and risk management environments, the opinion was that the Council's governance arrangements continue to be regarded as fit for purpose.

15. In addition, based on the review of the arrangements introduced to strengthen governance to support the Council's response to the COVID-

19 emergency, the opinion was that the Council's governance arrangements continued to be fit for purpose during that period.

16. The Audit and Standards Committee approved the Annual Governance Statement for 2019/20 at its meeting on 20 July 2020, following a review of the evidence detailed below in paragraphs 17-35 and evidence seen by the Committee during the year.

Cabinet Members

17. Assurance was sought from Members of the Cabinet on the effectiveness they felt could be placed on the Council's corporate governance arrangements. They concluded that effective governance arrangements are in place.

Senior Managers

18. Service Directors completed self-assessment assurance statements detailing the level of assurance obtained from their key control processes. The conclusion of this exercise found that senior managers agreed that effective control systems were in place overall. These areas were examined as part of the 2020/21 Audit Plan and the outcomes reported to the Audit and Standards Committee in October 2020.

Internal Audit

19. The Internal Audit Service has undertaken audit work throughout the year based on the risk based audit plan. In addition, the Council has a framework of assurance available to satisfy it that risks have been properly identified and are being managed by controls that are adequately designed and effective in operation. This includes assurance from a variety of sources other than the Internal Audit Service. These other audit systems have been assessed, as part of the Audit Plan.

20. Based on this audit activity the overall opinion of the Chief Internal Auditor for the year 2019/20 was that internal control systems and risk management and governance arrangements are effective.

21. During 2019/20 an independent assessment of Internal Audit Service compliance with PSIAS was carried out by Mazars. The outcome of the assessment was positive with the Internal Audit Service being assessed as substantially compliant.

22. A review of the effectiveness of Internal Audit has also been undertaken for 2019/20 in line with the Accounts and Audit Regulations 2015. Best practice highlights that "internal audit", in this context, includes not only the Internal Audit Service but also the Audit and Standards Committee in 2019/20. This review focused upon compliance with the Public Sector Internal Audit Standards and the CIPFA Statement on the Role of the Head of Internal Audit, reliance placed by the external auditor on Internal

Audit's work, an assessment of the effectiveness of the Audit and Standards Committee and relevant local performance information. Based on the review the Council's system of Internal Audit was considered to be operating effectively.

Risk Management

23. 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.

24. The Strategic Director, Resources and Digital reported that arrangements during the year for managing risk within the Council were effective.

Counter Fraud

25. The Council has a zero tolerance approach to fraud and corruption. A counter fraud communications and awareness plan is in place to enable and evidence communication requirements to promote and raise awareness of the Council's counter fraud arrangements, including the publicising of any proven fraud cases and media handling. The plan details the key stakeholders and the methods and frequency of any communications during the year. The plan also details how the outcomes of any successful prosecutions would be handled.

26. The Strategic Director, Corporate Resources reported that the Council's counter fraud arrangements in place during the year were effective.

Performance Management and Data Quality

27. The Council has a Corporate Performance Management Framework which helps it deliver the priorities within the Council Plan. The monitoring of performance takes place at key performance points as identified in the framework including quarterly performance reported to Group Management Teams and Corporate Senior Officer meetings.

28. In addition performance is also monitored, measured, challenged and scrutinised on a six monthly basis at Cabinet and respective Overview and Scrutiny Committees.

29. Based on evidence arising from the performance management framework process for 2019/20 effective controls are in place.

Views of the External Auditor and other External Inspectors

30. Mazars, the Council's external auditor, issued an Annual Audit Letter in August 2019 covering the financial year 2018/19. This comprised of two elements:

    - the audit of the Council's financial statements – an unqualified opinion was issued and presented to the Council's Accounts Committee on 26 July 2019; and
    - Value for Money Conclusion – the conclusion was that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

31. Other external inspectorates' reports have been issued from time to time on management and governance arrangements to the Council.

The Legal and Regulatory Framework

32. Assurance has been obtained from the Strategic Director, Corporate Services and Governance as the Monitoring Officer who has a legal duty to ensure the lawfulness and fairness of decision-making within the Council. The Council has a Constitution in place and compliance with established policies, procedures, laws and regulations is ensured by the requirement to give the Strategic Director, Corporate Services and Governance the opportunity to comment on every report submitted to a decision-making body.

Financial Controls

33. Assurance has been obtained from the Strategic Director, Resources and Digital, 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, that financial controls are effective. Systems in place include Financial Regulations, the opportunity to comment on the financial implications of committee reports, monitoring meetings and evidence from internal and external audit.

Partnerships

34. Service Directors review partnerships within their Service's 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. Service Directors have also been required to provide assurance on governance arrangements through their self-assessment statements and all Services are required to identify, through their business plans, where delivery of activity could impact on partnership working.

35. Based on evidence arising from partnerships for 2019/20 effective controls are in place.

Other Reports

Achievement of Going Concern Status

36. The Committee received a report considering the Council's status as a going concern.

37. Authorities are required by Section 32 of the Local Government Finance Act 1992 to set a balanced budget. However, financial pressures within the local government sector mean that there continues to be a risk that the Chief Finance Officer (Section 151 officer) may need to consider whether action is required under Section 114 of the 1988 Act, where the Section 151 officer must report, following consultation with the Council's monitoring officer, to all authority's members if they believe expenditure is likely to exceed incoming resources in the current or in any future year.

38. The report outlined the assessment of the Council's status as a going concern as this is now considered best practice in the current challenging local government financial climate.

39. Based on the assessment undertaken, the Council's Chief Finance Officer's (Section 151 officer) view was that the Council is fully aware of the challenges it faces and is prepared to deliver its services in the future taking account of the future known risks and therefore the Council is a going concern and the 2018/19 Statement of Accounts should be prepared on that basis.

Audit Completion Report and Council's Statement of Accounts

40. The outcome and findings of the audit of the Council's Statement of Accounts 2018/19 by the Council's external auditor, Mazars, along with the audited Statement of Accounts, were reported to the Audit and Standards Committee 22 July 2019. Mazars issued an unqualified opinion on the Statement of Accounts and concluded that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. The Committee noted the contents of the report and resolved that the Accounts Committee be advised that they had no issues to raise on the outcomes and findings of the Council's Statement of Accounts 2018/19 by Mazars

Treasury Management Policy & Strategy and Six Monthly Update

41. In line with CIPFA's Code of Practice on Treasury Management the Annual Treasury Policy and Strategy are reviewed by the Audit and Standards Committee prior to being reported to Cabinet and Council. A six monthly position is also reported through the Audit and Standards Committee to highlight progress on investment performance and borrowing.

Local Code of Governance Update

42. The Council has a local code of governance which was originally presented to the Audit Committee in April 2007. In line with good practice the document should be reviewed regularly, and the Audit and Standards Committee were asked to consider and approve an updated version on 28 January 2019, based on the CIPFA Delivering Good Governance in Local Government: Framework. The Code defines how the Council complies with the principles of good governance laid down by the Independent Commission on Good Governance in Public Services and forms an integral part of the Councils' Annual Governance Statement, which is a legal requirement to demonstrate the level of assurance that can be given by the Council's control systems and governance arrangements.

Training and Development

43. A report was presented to the Committee setting out progress on training and development requirements for the Committee.

- Following a change in membership of the Committee in May 2019, induction training was provided to the new Chair and Vice Chair, as well as new Committee members.

- Chair attended a CIPFA course 'Introduction to the Knowledge & Skills of the Audit Committee.

- A development plan was agreed setting out a schedule of delivery of key training topics, which it was agreed would be open to all Council members to attend which will assist with any future membership changes of the Committee.

44. To date, the following training has been delivered:

- Treasury Management

- Ethics and Probity

- Risk

Internal Audit Service – Compliance with Public Sector Internal Audit Standards

45. A report was circulated for the Committee to note the independent assessment of Internal Audit's compliance against Public Sector Internal Standards (PSIAS), conducted by Mazars. One of the requirements of the Standards is for an external assessment of compliance to be conducted at least once every five years by a qualified and independent assessor. The overall conclusion of the review was that the Internal Audit Service is substantially compliant with the PSIAS, subject to a number of minor areas for action which were outlined in the report. An

action plan to address the issues was included, progress against which will be regularly reported to the Committee.

Audit and Standards Committee
19 October 2020

Title of Report: **Annual Governance Statement 2019/20 – Internal Audit Review of Managers' Assurances**

Report of: **Darren Collins, Strategic Director, Resources and Digital**

Purpose of the Report

1 The report informs the Committee of the outcome of the work by the Internal Audit Service in reviewing the assurances provided by Service Directors to inform the 2019/20 Annual Governance Statement.

Background

2 The Accounts and Audit Regulations 2015 require an Authority to produce an Annual Governance Statement setting out its governance arrangements and reviewing their effectiveness.

3 The Audit and Standards Committee agreed on 9 March 2020 an assurance framework which would provide evidence for the completion of the 2019/20 Annual Governance Statement. Assurances from managers on the effectiveness of controls they have in place were a fundamental part of this framework.

4 Service Directors were asked to build on the work carried out in previous years and complete a self-assessment assurance statement detailing the level of assurance they felt they could place on their key control and governance processes. They were required to state whether they agreed or disagreed that the processes they had in place provided an effective level of assurance. There was also a requirement to detail the evidence to support this assessment. Internal Audit undertake an annual review of the assurance statements to ensure:

- Where key controls are not providing a sufficient level of assurance action has been taken to address these areas.
- Where key controls are providing a good level of assurance, evidence exists to support this assessment.

5 The 2019/20 Annual Governance Statement audit was carried out using a theme-based approach across the Council. All Service Directors were required to provide evidence to support their declarations made on the Assurance Statement in response to the following questions:

- IT/Cyber Security
- Covid19 Assessment

Review Outcomes

6 The audit concluded that systems and controls were operating well and no recommendations were raised.

7 The overall conclusion of this work, as included in the Quarter two update from Internal Audit report elsewhere on this Committee agenda, is that the systems and processes for the completion of the Managers' Assurance Statements are operating well and that they provided a good level of assurance for the 2019/20 Annual Governance Statement.

Recommendation

8 The Committee is asked to note the report.

Contact: Craig Oakes Ext. - 3711

Gateshead Council

Audit and Standards Committee

19 October 2020

Title of Report: **Corporate Risk Management 2020/21 Quarter 2 Update**

Report of: **Darren Collins, Strategic Director, Resources and Digital**

Purpose of the Report

1. This report updates the Committee on Corporate Risk Management developments during the period 1 July 2020 to 30 September 2020.

Background

2. Quarterly reporting to those with the responsibility for the oversight of risk management issues complies with the principles of good corporate governance. It is also embodied in the Corporate Risk Management, last approved by Council on 21 May 2013, which is kept under review, and whilst it has been amended to reflect changes in Senior Officer titles since that time, it remains relevant and fit for purpose.

3. The report covers progress against the Corporate Risk Management Developmental Objectives for 2020/21 as cited in the Corporate Risk Management Annual Report 2019/20 and any other risk management issues emerging within the quarter under consideration.

Strategic Risk Management

4. In November 2018 Cabinet and Council approved a revised Strategic Risk Register which had been presented to Audit and Standards Committee on 1 October 2018. The Corporate Management Team has continued to ensure strategic risks are responded to in accordance with the Risk Management Policy, with risks and controls being recorded for inclusion within the Strategic Risk Register. As part of the iterative nature of the Register, risk owners are asked to provide updates as part of the quarterly reviews which are reported to Committee as part of the quarterly updates.

5. There have been no changes to the Strategic Risk Register in the second quarter. The Strategic Risk Register is attached for information in Appendix 1.

Operational Risk Management

6. Operational risks identified within the Council are recorded on the operational risk register. Work is ongoing to ensure operational risk management activity within services continues to align with service objectives including those risks

specific to operational objectives as a consequence of the Council's priorities in response to COVD 19 and EU transition.

7. Service risk coordinators, whose role it is to support and champion risk management activity within their Services are working with the Corporate Risk Officer to support risk owners with evaluating existing operational risk assessments. The focus of this work is on ensuring the assessments contain the required information to inform management response.

Business Continuity Management

8. In accordance with the Council's Risk Management and Business Continuity Policies, all services are required to continuously assess the risk of their activities being disrupted and to develop cost effective continuity plans.

9. All Business Impact Assessments were reviewed by Services in early March to identify the critical activities in the event of a Pandemic and revise Business Continuity Plans accordingly to mitigate as far as possible any threats to delivery of these key activities that could not be interrupted for more than 5 to 10 days without the impact being critical. This process was revisited in early April to identify those activities where service interruption would be critical if it was for longer than 10 days, up to three months. This Business Impact Assessments are currently being revisited to ensure they adequately reflect and address both the current position and the likely pressures facing the Council as we move into the Winter season.

10. Quarterly audit and risk reports are provided to Group Management Teams which also highlight the activities for which services have developed continuity plans. Issues can also be reported in by Services represented on the Corporate Risk and Resilience Group.

Corporate Risk and Resilience Group

11. The Corporate Risk and Resilience Group last met 5 October 2020, the following items were considered:

    - COVID-19
    - EU Transition
    - Updates from Groups and Services

Recommendation

12. It is recommended that the Committee note the report and consider the effectiveness of the Council's risk management arrangements.

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Strategic Risk Register as at 30 September 2020

***Ranked in order of Gross Risk**

				Current risk		
Ref	**Risk**	**Risk owner**	***Gross Risk**	**Likelihood**	**Impact**	**Score**
10	Failure to comply with the housing regulatory standards applicable to Local Authorities.	Sandra Watson, Service Director – Housing Compliance	20	Likely	High	16
8	The implications of EU Exit potentially affecting the availability of Council's resources to deliver services which may impact on communities.	David Patterson, Brexit Lead Officer	16	Likely	Medium	12
9	The Council is hit by a Cyber-attack that compromises the confidentiality, integrity and availability of information and systems.	CMT	16	Moderate	High	12
1	Failure to address the financial gap in the Council's budget and achieve the target within the Medium-Term Financial Strategy resulting in non-achievement of Council strategic priority of Making Gateshead a Place Where Everyone Thrives.	CMT	16	Likely	Medium	12
2	Failure to manage demand and expectations could result in the Council not achieving its Thrive agenda.	CMT	16	Moderate	Medium	9
3	Failure to safeguard vulnerable children and adults	CMT	16	Unlikely	High	8
6	Failure to address workforce planning and resourcing requirements impacting on service delivery.	CMT	16	Moderate	Low	6
4	Failure to attract inward investment and deliver sustainable economic growth.	CMT	12	Moderate	Medium	9
5	Non-compliance with statutory requirements resulting in prosecution and subsequent penalties.	CMT	12	Likely	Low	8

7	Failure to provide a response during a Major incident or business interruption affecting availability of the Council's resources and impacting on ability to deliver critical services or an impact on a community.	CMT	8	Unlikely	Medium	6

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