STATEMENT OF ACCOUNTS 2017/18

GATESHEAD COUNCIL:

SINGLE ENTITY AND CONSOLIDATED

AUDITED

Gateshead Council

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Leader's Foreword

by Councillor Martin Gannon
Leader of the Council

The scale of the financial challenge we're facing is enormous. Government funding continues to reduce and comes at a time when we need to support more older people and more vulnerable young people. The scale of the cuts coupled with increasing demand for services has meant the Council has had to make savings every year on its budget since 2010.

Between 2010 and 2017, the Council has made £143m of financial savings with a further £13.7m identified as part of the 2018/19 budget. These have been achieved through efficiency programmes, income generation and changing the way the Council works. The Government's approach to public finances and reducing the deficit is likely to lead to further significant financial reductions over the medium term, estimated to be £77m between 2019/20 and 2023/24. The likely continuing requirement and scale of budget savings, coming on top of the savings already taken from budgets since 2010, presents an ever-present and increasing challenge for the Council. In 2017/18, the Council took the necessary decision to increase council tax by 4.99%, which included 3% 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 affected by the increase.

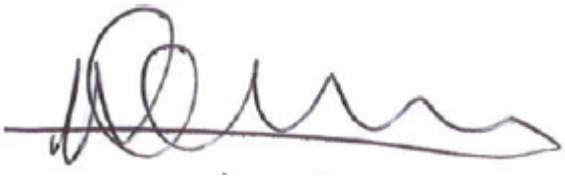
Despite these challenges, the Council continues to invest in the assets of the borough with planned capital expenditure forecast to be £307m over the five years to 2022/23, to encourage economic growth and housing growth which will bring about new jobs, new homes and increase the skills of local people.

The Council is operating in an ever-changing policy landscape, both nationally and locally. The levels of uncertainty and the impact of government decisions are significant including Universal Credit, homelessness, increasing demand for services especially within social care, as well as the reducing funding, all set against the uncertain economic impact of Brexit. The challenge has compelled the Council to refocus on what matters most. On 20 March 2018, the Council approved its new strategic approach **Making Gateshead a Place Where Everyone Thrives**. The strategy is built upon five pledges:

- Put people and families at the heart of everything that we do
- Tackle inequality so people have a fair chance
- Support our communities to support themselves and each other
- Invest in our economy to provide sustainable opportunities for employment, innovation and growth across the borough
- Work together and fight for a better future for Gateshead.

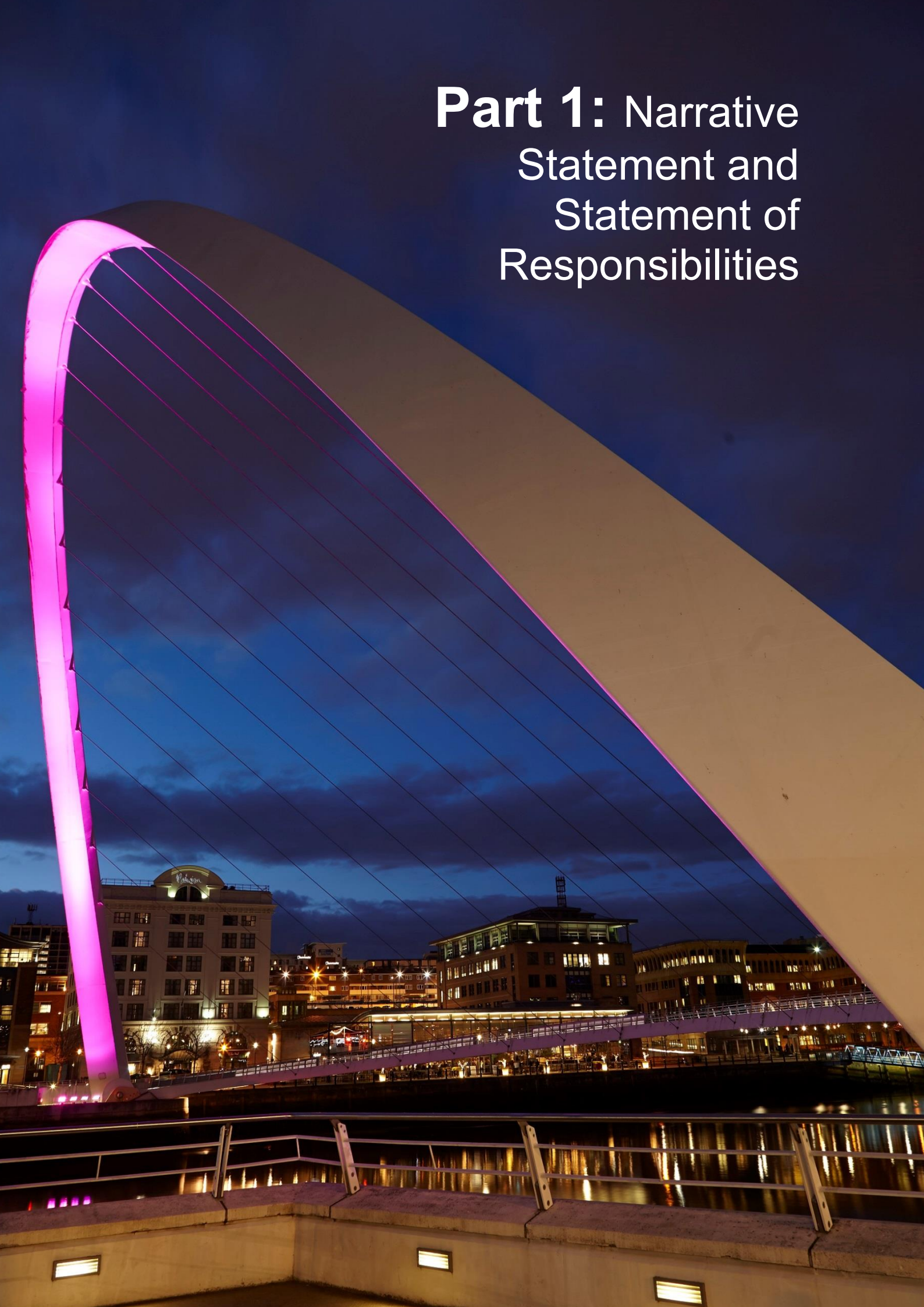
The new strategic approach is not intended to cover everything that the Council does in detail, but it does provide a framework to demonstrate how the Council will work and make decisions in the future which will be policy and priority led.

In developing the strategy, I am confident that we can steer the Council through the challenging times ahead whilst focusing on improving the lives of local people in our communities. The Council retains its ambition and commitment to providing quality services to the residents of Gateshead and will continue to effectively plan, innovate and deliver to achieve this.



Councillor Martin Gannon

Part 1: Narrative Statement and Statement of Responsibilities



Narrative Statement

About the Council

- Gateshead has a population of **202,600** and covers **55** square miles, making it the largest in area of the five Tyne and Wear authorities
- The Council employs around **7,700** people (including schools staff)
- There are **90,600** households within Gateshead with **59%** owner occupied, **22%** managed on behalf of the Council by the Gateshead Housing Company, **13%** private rented and **6%** rented from a registered social landlord
- **5,085** businesses generated **£87m** in business rates in 2017/18
- **419** new homes were built in Gateshead in the last 12 months
- The Council is Corporate Parent to **395** Looked After Children and cares for **3,698** 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 2017/18, 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[1]-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[2].

The Statement of Accounts presents the Council's financial statements and other financial and governance information; from 2017/18, 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. This is the first year that the Council have prepared Group Accounts.

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 (p74-78) which was approved by the Audit and Standards Committee on 18 June 2018. 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

The Council is operating in an ever-changing policy landscape, both nationally and locally. The levels of uncertainty and the impact of government decisions are significant, for example, Universal Credit, homelessness, mental health, significantly reduced local government funding as well as the potential adverse economic impact of Brexit. The challenging local context of austerity and increasing demand on council services has compelled the Council to refocus on what matters most.

With two years left on the lifespan of the current Council Plan 2015-2020, the opportunity was taken to undertake a mid-term review to ensure the Council continues to get the best outcomes for local people and remains a viable and sustainable organisation into the future, despite the challenging policy and budgetary context.

During the year, the Council launched its new strategic approach **Making Gateshead a Place Where Everyone Thrives**, developed with the Council's purpose and beliefs in mind, along with what matters most to the people of Gateshead. The new strategic approach provides a framework to demonstrate how the Council will work and make decisions in the future which will be policy and priority-led.

Making Gateshead a Place Where Everyone Thrives is aligned to the timeframe of the Council's **Medium Term Financial Strategy** (MTFS) and is predicated on the following council pledges:

- Put people and families at the heart of everything that we do
- Tackle inequality so people have a fair chance
- Support our communities to support themselves and each other
- Invest in our economy to provide sustainable opportunities for employment, innovation and growth across the borough
- Work together and fight for a better future for Gateshead

To build on the momentum there are some key areas of transformation which will help the Council to develop and deliver against the new approach. These include:

- ensuring tackling inequalities is a primary consideration of all our policies
- taking a holistic approach, with our partners, to achieve better outcomes for local people especially vulnerable children and adults

[1] International Financial Reporting Standards
[2] Under the terms of the Accounts and Audit Regulations 2015 & the Local Government and Housing Act 1989

- taking a place shaping approach to attract investment, facilitate growth and foster pride among local people
- improving the customer experience
- generating income to help support a viable and sustainable Council.

Our approach

The Council's Medium Term Financial Strategy is based on a financial forecast over a rolling five-year timeframe from 2019/10 to 2023/24. The MTFS sets the financial context for the Council's resource allocation process and budget setting.

For this five-year period there is an estimated funding gap of £77m. Evaluation of the Council's change programme has shown that insufficient funds have been delivered to balance the budget and focus was not on where the most significant impact could and should be. To this end the budget process is being addressed through cross-council working and predicated on four major themes to deliver a balanced budget:

- Economic development
- Trading and income generation
- Managing demand
- Efficiencies and savings

The development of the Council's Manifesto *Making Gateshead a Place Where Everyone Thrives* will provide clear direction over the next five years, enabling the finite resources to be allocated against priorities. Practically, this means taking the time to reflect on what the core purpose of the Council is, and asking what matters most to the people of Gateshead.

Whilst it is difficult to predict the future with any certainty, what matters most to the Council is fairness, putting people and families at the heart of what it does, and getting the best outcomes for local people. This may mean targeting resources to tackle inequality, focusing on those in need i.e. just coping and vulnerable people, and changing policy to concentrate on prevention, jobs and investment. We need to consider our approach in how existing resources (people, time and money) are distributed so that those communities experiencing the greatest disadvantage receive the greatest level of resource.

MTFS executive summary

The Council is operating within a context of unprecedented pressure on local authority budgets. 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 will challenge the ability of the Council to respond to the needs of Gateshead residents and the wider community.

The UK's recent vote to leave the European Union (EU) is likely to herald more 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. Although the Council's ranking in the Index of Multiple Deprivation 2015 was an improvement, there are still 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.

Further details can be found in the MTFS which was agreed by Council on 19 July 2018.

Achievements in 2017/18

Over the last 12 months the Council made good progress in achieving its vision to be a place where everyone thrives.

- ✔ The Council made a commitment to provide an additional 13 new apprenticeships across the Council;
- ✔ Planning consent was awarded for a 100,000m^2 development within the Council's Enterprise Zone at Follingsby Park to be developed in 2018/19, which will lead to the creation of at least 1,500 new jobs in Gateshead;
- ✔ The Council supported 137 businesses to implement successful investment projects that have resulted in 660 new jobs being created and 538 jobs safeguarded in Gateshead;
- ✔ Following a successful pilot in 2016/17 the Council secured funding through Department of International Trade, North East Local Enterprise Partnership (NELEP) and North East Combined Authority (NECA) to

support overseas owned employers in Gateshead. The project has supported eight successful expansion projects and the creation of 166 new jobs;

- ✓ Gateshead's fifth Volunteers' Month took place in June 2017. 106,189 volunteer hours were recorded in June which equates to £1.38m economic value;
- ✓ The Council won 'Commercial Fleet of the Year' at the Commercial Fleet 2017 Awards;
- ✓ The Council's housing joint venture, Gateshead Regeneration Partnership, secured planning approval for 114 homes on three sites in Rowlands Gill, Saltwell and Windy Nook;
- ✓ Plans to build a multi-million-pound, state of the art entertainment arena, conference centre and exhibition space at Gateshead Quays were announced. The development is set to open in 2021;
- ✓ The iconic Angel of the North celebrated its 20th birthday; and
- ✓ After celebrating the tenth anniversary as a Fairtrade borough last year, the Council renewed their Fairtrade Town Status for the next two years.

Further information on the Council's performance and key indicators can be found on performance section of the Council's website[3]. The year-end assessment of performance and delivery 2017/18 was reported to Cabinet on 17 July 2018.[4]

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 2017/18; 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:

- A reduction in its core funding in recent years as a result of the Government's commitment to significantly reduce reliance on central grants and move councils to be self-financing by allowing them to retain a higher proportion of business rates collected locally. By 2018/19, the Council's core grant funding will have reduced by approximately 52% since 2010;
- 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 current level of spend plus new budget pressures. It is estimated that the Council will need to close a funding gap of £88.0m between 2019/20 and 2023/24;
- The Local Government Finance Settlement 2018/19 includes some unrealistic assumptions about future increases in other income streams available to the Council. Settlement estimates are based upon the highest possible increase in council tax and significant increases in the net number of homes, plus potentially optimistic forecasts around inflations and business rate increases;
- Gateshead is ranked the 73rd most deprived out of 326 local authorities in England and within Gateshead there are 15 areas which fall within the 10% most deprived areas in England. 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 211,500 and see an increase of 38% in people aged 65 or older by 2039. 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 has created uncertainty and the consequences of this are yet to be fully understood. Whilst it is not known whether the impact will be positive or negative it is likely to affect interest rates and inflation, labour costs, property and rental values. This may have a significant impact on the national and local economy; and
- The Medium Term Financial Strategy was refreshed in July 2018; however the environment of uncertainty will continue to make medium-to long-term planning extremely challenging.

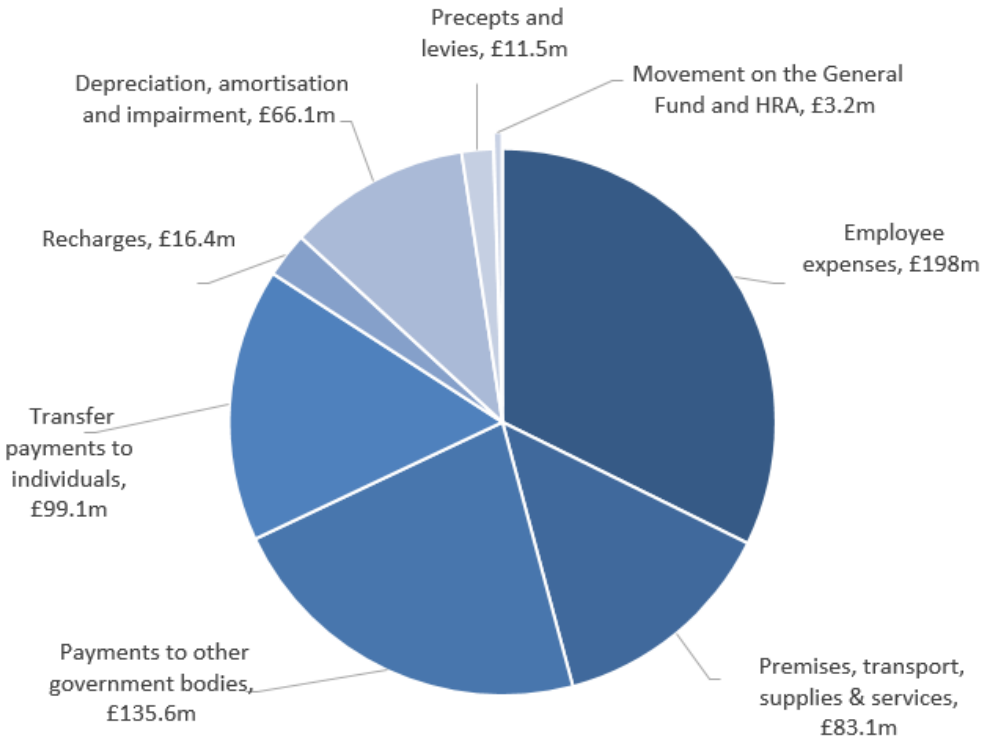
[3] www.gateshead.gov.uk/Council%20and%20Democracy/About-the-Council/Performance/Performance.aspx
[4] https://www.gateshead.gov.uk/article/8910/Council-Plan-2017-18-year-end-assessment-of-performance-and-delivery

Revenue Income and Expenditure Summary

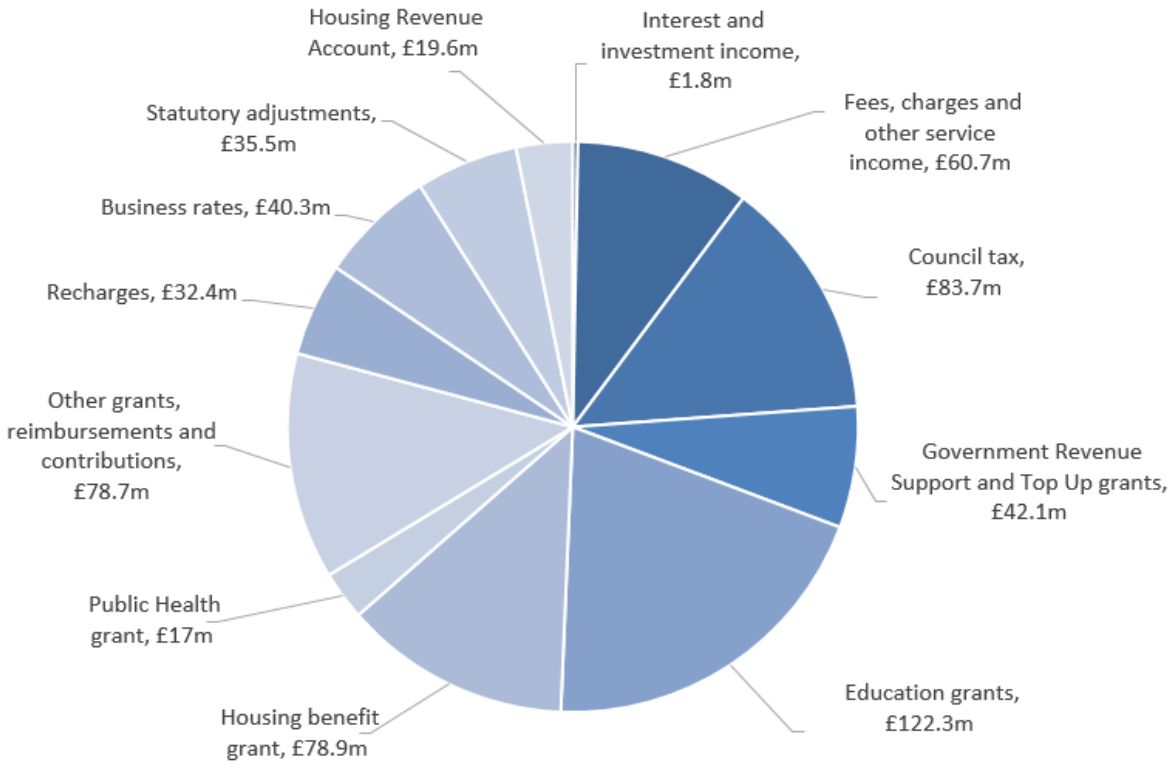
This section offers a summary of the income and expenditure presented within the Movement in Reserves Statement (page 19), the Comprehensive Income and Expenditure Statement (page 20) and the Housing Revenue Account (HRA) statement (page 69). The information reconciles to the net movement in the General 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:

Total revenue expenditure (£613m)



Total revenue income (£613m)



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)[5]. The following section presents the Revenue Outturn position against Budget as reported internally to Cabinet and Council.

The key outcomes for the year are as follows:

- The Council approved a revenue budget of £202.649m for 2017/18. The actual net expenditure position, following a movement in earmarked reserves of £0.01m, was £202.790m. The council received additional financing of £1.409m which results in an overall surplus of £1.268m.
- The General Reserve decreased by £3.129m to £13.668m. This includes an in-year movement of £4,397m to earmarked reserves following the MTFS review, and the in-year surplus of £1.268m. There was also a reduction of £0.268m in the LMS Reserve (schools) to £5.205m. Earmarked reserves have increased by £2.376m to £36.150m: this includes the movement of £4.397m from the General Reserve, the use of £0.010m to support the in-year revenue budget and the use of £2.011m from the Dedicated Schools Grant.

Further details can be found in the Council's Revenue Outturn report to Cabinet on 19 June 2018.

The following shows the Council's spend against Budget for 2017/18[6]:

	Revised Budget	Use of Reserves	Outturn	Budget Variance
	£000's	£000's	£000's	£000's
Care, Wellbeing & Learning	115,261	79	121,953	6,692
Communities & Environment	22,163	513	21,299	(864)
Office of the Chief Executive	1,679	95	1,622	(57)
Corporate Services & Governance	4,975	51	4,269	(706)
Corporate Resources	16,971	(535)	16,913	(58)
Net service expenditure	**161,049**	**203**	**166,056**	**5,007**
Other Services & Contingencies	5,784	(339)	4,785	(999)
Capital Financing Costs	29,000		27,564	(1,436)
Traded & Investment Income	(2,773)	126	(5,291)	(2,518)
Expenditure passed outside General Fund	(1,888)		(1,797)	91
Levies	11,477		11,473	(4)
Net spend before financing	**202,649**	**(10)**	**202,790**	**141**
Financing				
Settlement Funding Assessment (SFA)	(82,813)		(83,296)	(483)
Other Grants	(18,427)		(19,353)	(926)
Public Health	(16,952)		(16,952)	0
Council Tax	(81,819)		(81,819)	0
Collection Fund (Council Tax)	(2,638)		(2,638)	0
	(202,649)	**0**	**(204,058)**	**(1,409)**
Net under (-) / over (+) spend	**0**	**(10)**	**(1,268)**	**(1,268)**
General Reserve – opening balance			**16,797**	
Appropriations			(4,397)	
2017/18 underspend			1,268	
General Reserve – closing balance			**13,668**	

Capital income and expenditure summary

In 2017/18, the Council spent £74.7m on capital schemes (2016/17: £65.1m), 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.

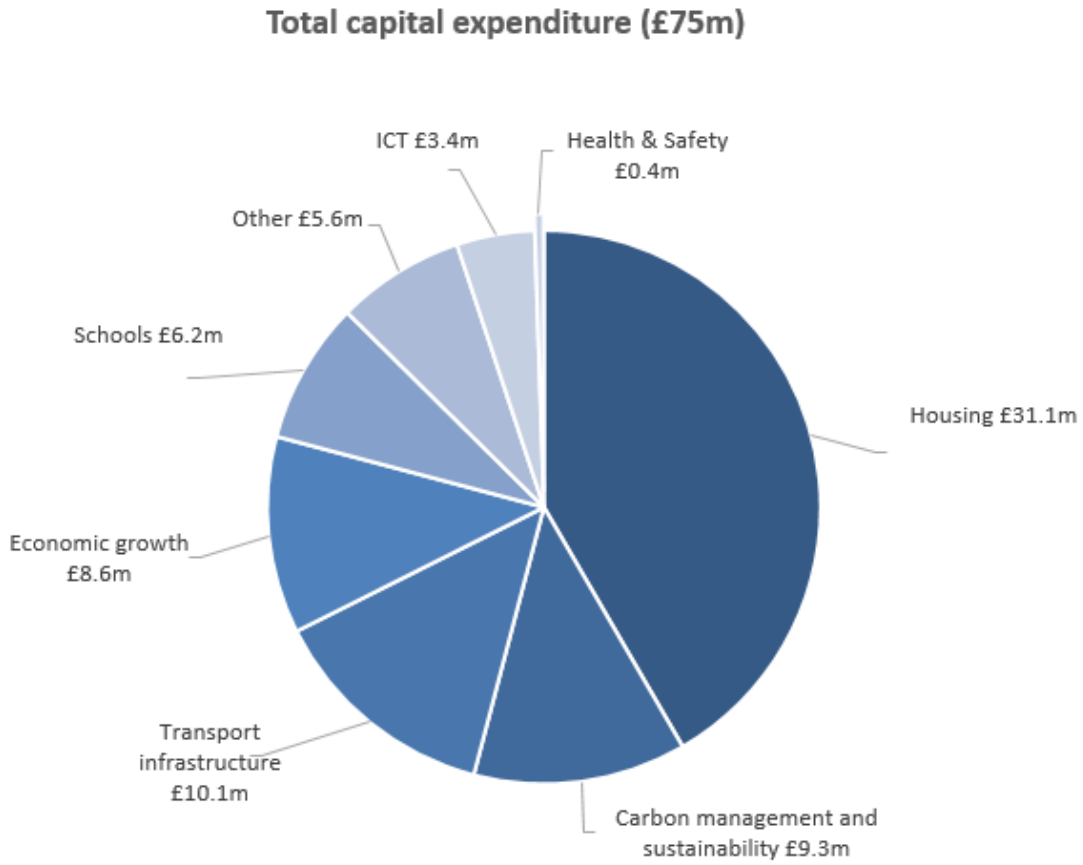
Actual capital expenditure for the year on the Council's non-current assets totalled £68.1m (2016/17: £61.8m). This expenditure was invested in the purchase and improvement of the Council's assets such as housing, schools and transport infrastructure.

In addition, the Council spent a further £6.6m (2016/17: £3.3m) on schemes where no asset of the Council was created. This included the award of capital loans to facilitate the development of affordable housing within Gateshead, the award of disabled facilities grants to individuals, investment to bring empty private properties

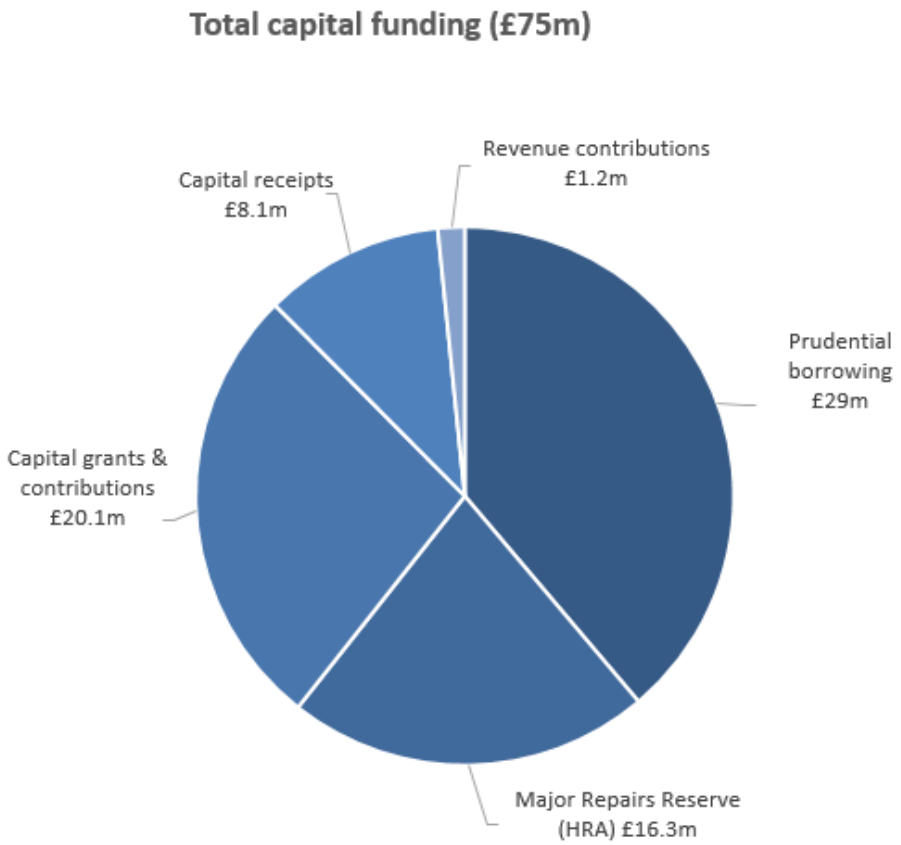
[5] Note 8 *Expenditure and Funding Analysis* provides a reconciliation between the revenue outturn position reported internally and the cost of services in the Comprehensive Income and Expenditure Statement.

[6] Note that this excludes schools and HRA

back into use, and works to voluntary aided schools, academies and trust-owned properties. The following chart indicates the breakdown of capital expenditure across the Council:

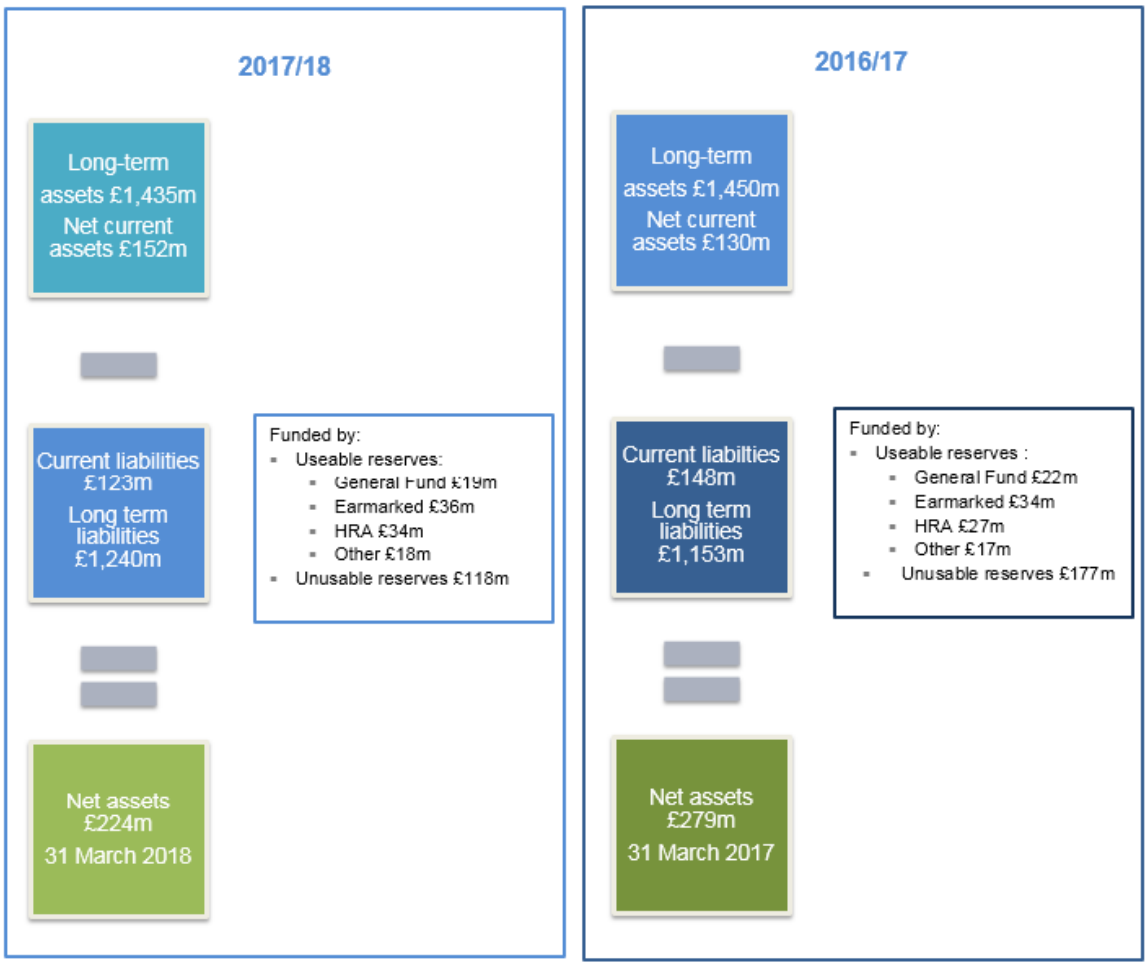


The use of available external capital resources and capital receipts was maximised, ensuring that the Council did not lose any of the external funding that had been awarded. Where possible, reductions have been made to schemes that are not considered to be essential in helping to reduce the pressure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



Balance sheet summary

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



Other Key Items in 2017/18

Material assets and liabilities: changes in 2017/18

As at 31 March 2018, the Council held £1,435.0m of long-term assets, £151.8m of current assets, £123.0m of current liabilities and £1,239.6m of long-term liabilities.

Long-term assets have reduced by £14.6m, primarily due to decreases in the value of the Council's asset portfolio.

Current assets have increased by £21.7m, which includes the following significant items:

- An increase of £19.0m 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 (£3.4m); and
- A £0.8m increase in cash and cash equivalents.

The Council's current liabilities have reduced by £25.4m, which includes the following:

- Cash and cash equivalents (overdrafts) have increased by £0.4m;
- Short-term borrowing has decreased by £22.6m, reflecting the maturity profile of borrowing and use of prudential borrowing for the capital programme; and
- A decrease of £4.9m in short-term creditors due to fluctuations in the amounts owed by public bodies such as the NHS and changes in grant receipts in advance.

Long-term liabilities have risen by £86.0m, mainly reflecting a rise in pension liabilities of £26.0m, the increase in long-term borrowing of £62.5m, offset by a £2.5m decrease in long term creditors.

Workforce management and exit packages

The 2017/18 Statement of Accounts recognises a cost of £4.3m in relation to actual redundancies and other terminations in 2017/18, including expected redundancies and terminations in 2018/19 and 2019/20. This includes 13 compulsory redundancies (59 in 2016/17), 86 voluntary redundancies (29 in 2016/17) and 4 other terminations (1 in 2016/17). 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 2017/18 totalled £3.4m. £2.6m of this expenditure was funded from a balance sheet provision and recognised in 2016/17, with the remaining expenditure of £0.8m being funded from revenue. In addition, as part of the 2017/18 revenue outturn, a provision of £3.5m was created for redundancies in 2018/19 and 2019/20.

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 current shortfall in the Council's share of the relevant pension funds has been assessed by independent actuaries as £568.9m (from £542.8m in 2016/17). The deficit on the Fund increased by £26.1m for a variety of reasons (such as increase in current service costs due to actuary assumptions used); the Council is making the necessary pension deficiency payments over a 20-year period to address the estimated shortfall. Note 25 to the core financial statements provides further details of the Council's pension disclosures.

Council's borrowing position

The Budget and Council Tax Level Report, approved by Council on 23 February 2017, details the 2017/18 borrowing limits for the Council.

The specific borrowing limits set relate to two of the prudential indicators that are required under the Prudential Code[7]. The Council is required to set borrowing limits for the following three financial years. The limits for 2017/18 were as follows:

- Authorised limit for external debt of £825m
- Operational boundary for external debt of £800m

As part of the Council's Treasury Management operation, these indicators are monitored on a daily basis, and neither was exceeded during 2017/18. The highest level of external debt incurred by the Council during the year was £655.2m.

Changes to the presentation of the Statement of Accounts

In 2017/18, the Trading and Commercialisation Service transferred from Communities and Environment to Corporate Resources, as a result of an internal restructure. This has resulted in a number of changes to the Comprehensive Income and Expenditure Statement and Note 8.

Significant Issues for 2018/19 and Beyond

Government Funding

Within the 2018/19 Local Government Finance Settlement, the Government provided some indicative core funding levels up to 2019/20 which gave a high-level indication of direction of travel, especially with regards to Revenue Support Grant. However, huge uncertainty still exists in respect of likely Government funding levels in relation to other grants over the period as well as instability that arises from the volatility of business rates funding and the implications of the move towards a new funding regime of 75% rate retention.

Government figures highlight significant challenges ahead for councils which include:

- additional cost pressures arising from general inflation;
- cost pressures in the care sector, due to increases in the number of adults and children needing support and rising levels of need;
- increases in demand for everyday services as the population grows;
- pressure on homelessness budgets; and
- increases in core costs such as national insurance, the National Living Wage and pension contributions.

The MTFS sets out the Council's approach to achieving a sustainable budget over the medium term whilst ensuring that all revenue resources are directed towards corporate priorities such as the strategic approach

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

towards *Making Gateshead a place where everyone thrives* and ultimately the delivery of Vision 2030. The MTFS describes the financial direction of the Council over the planning period and outlines the financial pressures it will face. It also ensures a sustainable Gateshead through the best use of available resources to deliver services and long-term financial sustainability for the Council. This strategic financial approach is built around the four MTFS themes of economic development, trading and income generation, management of demand and efficiencies / savings.

Medium-term financial planning remains difficult and the plan has been prepared against the expectation of continuing funding cuts for local government coupled with increased demands across many vital services.

Revenue budget 2018/19

Council agreed the revenue budget for 2018/19 at its meeting on 22 February 2018. This was set at £203.5m (excluding schools) and included £13.7m in savings.

The budget includes a number of risk areas which, if not closely monitored and controlled throughout the year, could add further pressure to the funding gap in future years. These include the delivery of agreed savings and achievement of income targets, particularly in relation to localisation of business rates and council tax.

The 2018/19 budget includes a contingency of £8.4m to manage risks in relation to the ongoing contribution to the costs of managing the workforce, demand pressures, and any unforeseen in year cost pressures. The potential cost of the pay award (£3.3m in 2018/19) is covered there pending formal agreement.

Capital programme 2018/19

On 22 February 2018, the Council approved a capital programme of £102.9m for 2018/19, which included £28.3m of planned HRA capital investment. The level of investment over the next five years (2018/19 to 2022/23) is expected to amount to £307.0m, of which £216.3m relates to General Fund schemes, representing a significant level of strategic investment to deliver the Council's strategic approach to making Gateshead thrive.

Economic and housing growth remains a key priority for the Council's capital investment, with planned investment of £53m over the next five years within the Accelerated Development Zone (ADZ) to encourage economic growth within Gateshead, helping to facilitate development and generate additional income for the Council in the form of retained business rates. This includes almost £40m of investment to facilitate the proposed wider development of Gateshead Quays.

Workforce management costs

The 2018/19 budget includes a contingency of £1.0m for workforce management costs and, coupled with the provision of £3.5m, reflect the anticipated redundancy costs as a result of the estimated funding gap. Further resource may be required and this would be met from reserves.

Welfare reform

The Government's welfare reform agenda, including Universal Credit, is likely to have an impact in relation to potential bad debts relating to council tax income and housing rents. In addition, there could be wider financial implications due to increased demand for Council services as a result of the Government's changes.

Economic growth

The Council will place an increasing priority on local economic growth to generate income that will sustain service delivery in key areas. A New Development Deal was agreed between the Government, Gateshead and Newcastle in 2012 which included, amongst other things, the creation of an ADZ. This ADZ, which includes the Gateshead Quays and Baltic Business Quarter, allows the Council to retain 100% of business rates growth (rather than the 49% retainable in the rest of the Borough), providing a strong incentive for regeneration.

On 2 June 2015, Cabinet approved the appointment of a development partner for Gateshead Quays, which will assist with regeneration plans and business rates growth. The Council has now entered into a development agreement with ASK and Patrizia UK and work is currently progressing on the detailed design of a major mixed use scheme. The retained business rates that the Council will have available for future funding will depend on the extent to which business growth can be supported in the area.

EU referendum

On 23 June 2016, the UK voted to end its membership of the EU. This has resulted in the UK entering a period of significant uncertainty that may impact on Council service delivery and financial planning in the future. This will be kept under annual review as part of medium-term financial planning.

Schools

In 2017/18, two maintained schools converted to sponsored academy status: Millway, Gateshead's Pupil Referral Unit (becoming River Tyne Academy) and Heworth Grange, a secondary school. Discussions are ongoing with a secondary academy, the Department of Education and the local authority in relation to Gateshead's mainstream schools funding formula.

Strategic Risks for 2018/19

In accordance with the Council's Risk Management Policy a continuous approach is taken to the identification of both strategic and operational risks and opportunities. They key risks for 2018/19 include:

Inequality within Gateshead communities	Financial pressures	Increasing demand	General Data Protection Regulation (GDPR)_
Against a backdrop of significant financial challenges faced by: the Council, residents, local businesses, and partners the inequality agenda has been identified as more prevalent than in previous years across communities in Gateshead, indications show high numbers of people accessing foodbanks, fuel poverty, poorer levels of educational attainment for disadvantaged pupils, poorer health outcomes than in other areas, and high number of people on out of work benefits. A five-year strategic approach of *Making Gateshead a Place Where Everyone Thrives* has been agreed with monitoring by the Council's Overview and Scrutiny Committees.	Reductions in funding threaten the viability of services and will require the Council to continue making difficult decisions regarding which services to prioritise. This risk could have a substantial impact on the Council's operating model. The Council will continue to respond to financial challenges using a systematic and planned approach. It has approved a MTFS to cover a five-year period up to 2023/24. The MTFS sets the financial context for the Council's resource allocation and budget setting, with the purpose of ensuring resources are assigned to Council priorities. Budget options for the three-year period 2019/20 to 2022/23 will be considered to manage pressures effectively through four themes; economic development, trading and income generation, managing demand, and efficiencies and savings.	Demographic data and the Council's performance information indicate an increasing demand for Council services which will, when taken with the reductions in funding, threaten service quality and viability. This risk could have a substantial impact on the Council's performance and its relationship with its stakeholders and depending on the nature of the services where demand and costs pressures are most pronounced, there could also be a substantial impact on the quality of life and safety of residents within the local community. In response, the Council is seeking to identify and implement new ways of working. This includes the development of early intervention strategies for the care and wellbeing of children and adults and also enhancing partnership working arrangements.	GDPR is a new law that regulates the processing of personal data of EU citizens by organisations both inside and outside the European Union. Full enforcement of the GDPR began on 25 May 2018. Failure to comply could result in the Council incurring significant financial penalties. Prosecution of the Council could result in significant reputational damage arising from a change in how it is currently perceived. Additionally, there is the potential consequence of prosecution, resulting in the Council losing the ability to store and process data. This would significantly impact the Council's operations. A programme of training is being delivered to facilitate a review of working practices by employees. A team has been established under the supervision of the nominated data protection officer to oversee the implementation of a revised system of control.

The Statement of Accounts

The Statement of Accounts is set out on pages 18 to 73. The Statement covers the financial year from 1 April 2017 to 31 March 2018, 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 (p17) explains both the Council's and the Strategic Director, Corporate Resources' responsibilities in respect of the Statement of Accounts.

Core Financial Statements (pages 18 to 67):

Movement in Reserves Statement (p19) 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 (p20) 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 21.

Balance Sheet (p22) 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 (p23) summarises the cash and cash equivalent receipts and payments of the Council arising from transactions with third parties. Group transactions have not been included as cash balances are held by the Council and have been removed as intra-group transactions.

Notes to the Core Financial Statements (p25) 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 69 to 73):

Housing Revenue Account (HRA)

- **HRA Income and Expenditure Statement (p69)** covers the provision and maintenance of the Council's housing stock. There is a statutory requirement[8] to produce this account, which separates housing from all other Council services.
- **Statement of Movement on the HRA Balance (p69)** 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 (p70)** provide additional information to support the HRA statements.

Collection Fund

- **The Collection Fund Statement (p71)** - the Council is required[9] 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 (p72)** provide additional information to support the Collection Fund Statement.

[8] See http://www.legislation.gov.uk/ukpga/1989/42/part/VI
[9] In accordance with section 89 of the Local Government Finance Act 1988 (as amended in 1992)

Documents Supporting the Statement of Accounts

Annual Governance Statement (p75), required by regulations[10] to accompany the Statement of Accounts, outlines the Council's approach to corporate governance and internal control.

Independent Auditor's Report (p80) details the basis of the external auditor's opinion on the Statement of Accounts.

Glossary of Terms (p83) includes a description of the key terms used in the Statement of Accounts, along with explanations of any technical terms.

Contacts (p90) includes a list of key contacts regarding the Statement of Accounts.

Darren Collins
Strategic Director, Corporate Resources

[10] Paragraph 4(4)(a) of the Accounts and Audit Regulations 2015

Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

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

The Strategic Director, Corporate Resources' Responsibilities

The Strategic Director, Corporate Resources is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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

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

The Strategic Director, Corporate Resources has also:

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

Chief Finance Officer's Certificate

I hereby certify that the Statement of Accounts for the year ended 31 March 2018, 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 at 31 March 2018 and of its income and expenditure for the year ended 31 March 2018.

Signed: Date:

Darren Collins
Strategic Director, Corporate Resources

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 reserves**	TGHC usable reserves	**Total group useable reserves**	Council unusable reserves	TGHC unusable reserves	**Total group reserves**
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance as at 31 March 2016		**23,387**	**36,656**	**24,109**	**0**	**10,823**	**2,522**	**97,497**	950	**98,447**	150,696	(9,430)	**239,713**
Movement in reserves during the year													
Total comprehensive income and (expenditure)		(27,131)	0	41,575	0	0	0	**14,444**	0	**14,444**	15,190	0	**29,634**
Adjustments between group accounts and Gateshead Council single entity accounts								**0**	401	**401**	0	(6,510)	**(6,109)**
Adjustments between accounting basis and funding basis under regulations	6a	26,014	(2,882)	(38,325)	0	3,600	323	**(11,270)**	0	**(11,270)**	11,270	0	**0**
Increase or (decrease) in year		**(1,117)**	**(2,882)**	**3,250**	**0**	**3,600**	**323**	**3,174**	401	**3,575**	26,460	(6,510)	**23,525**
Balance as at 31 March 2017	**6b**	**22,270**	**33,774**	**27,359**	**0**	**14,423**	**2,845**	**100,671**	1,351	**102,022**	177,156	(15,940)	**263,238**
Movement in reserves during the year													**0**
Total comprehensive income and (expenditure)		(37,629)		5,282				**(32,347)**	0	**(32,347)**	(21,240)	0	**(53,587)**
Adjustments between group accounts and Gateshead Council single entity accounts								**0**	(660)	**(660)**	0	(22,150)	**(22,810)**
Adjustments between accounting basis and funding basis under regulations	6a	34,232	2,376	1,313	0	(2,822)	3,315	**38,414**	0	**38,414**	(38,414)	0	**0**
Increase or (decrease) in year		**(3,397)**	**2,376**	**6,595**	**0**	**(2,822)**	**3,315**	**6,067**	(660)	**5,407**	(59,654)	(22,150)	**(76,397)**
Balance as at 31 March 2018	**6b**	**18,873**	**36,150**	**33,954**	**0**	**11,601**	**6,160**	**106,738**	691	**107,429**	117,502	(38,090)	**186,841**

Comprehensive Income and Expenditure Statement

Council position:

2016/17 (restated*)				2017/18			
Gross Exp. £000s	Gross Income £000s	Net Exp. £000s	Service	Gross Exp. £000s	Gross Income £000s	Net Exp. £000s	Notes
196,199	(97,233)	98,966	Care, Wellbeing & Learning	203,471	(107,034)	96,437	
74,162	(34,869)	39,293	Communities & Environment	76,607	(37,700)	38,907	
138,407	(97,792)	40,615	Corporate Resources (including housing benefits)	124,595	(92,465)	32,129	
15,413	(5,824)	9,589	Corporate Services & Governance and Office of the Chief Executive	19,016	(6,071)	12,945	
3,436	(3,433)	3	Other Corporate Income and Expenditure	6,789	(6,025)	765	
88,946	(90,263)	(1,317)	Schools	87,251	(90,589)	(3,338)	
25,647	(82,207)	(56,560)	Housing Revenue Account	60,665	(80,249)	(19,584)	
542,210	**(411,621)**	**130,589**	**Cost of services**	**578,392**	**(420,133)**	**158,261**	8
		17,171	Other operating expenditure			27,296	7b
		41,746	Financing and investment income & expenditure			42,217	7b
		(203,950)	Taxation and non-specific grant income			(195,427)	7b
		(14,444)	**(Surplus) or deficit on provision of services**			**32,347**	
		(73,230)	(Surplus) or deficit on revaluation of non-current assets			8,130	17
		58,040	Re-measurements of the net defined benefit liability			13,110	25
		0	(Surplus) or deficit on revaluation of available for sale financial assets			0	
		0	Other gains/losses			0	
		(15,190)	**Other comprehensive (income) and expenditure**			**21,240**	
		(29,634)	**Total comprehensive (income) and expenditure**			**53,587**	

* Restated due to an internal restructure in 2017/18 involving Service transfers from Communities and Environment to Corporate Resources (*see also Note 8*)

Group position:

2016/17				2017/18			
Gross Exp.	Gross Income	Net Exp.	Service	Gross Exp.	Gross Income	Net Exp.	Notes
£000s	£000s	£000s		£000s	£000s	£000s	
196,129	(97,228)	98,901	Care, Wellbeing & Learning	203,386	(107,010)	96,376	
72,794	(34,704)	38,090	Communities & Environment	74,644	(37,254)	37,390	
137,189	(96,574)	40,615	Corporate Resources (including housing benefits)	122,219	(90,107)	32,112	
15,191	(5,602)	9,589	Corporate Services & Governance and Office of the Chief Executive	17,975	(5,030)	12,945	
3,436	(3,433)	3	Other Corporate Income and Expenditure	5,451	(4,789)	662	
88,946	(90,263)	(1,317)	Schools	87,251	(90,589)	(3,338)	
27,556	(82,533)	(54,977)	Housing Revenue Account and TGHC	86,500	(80,865)	5,635	
541,241	**(410,337)**	**130,904**	**Cost of services**	**597,426**	**(415,644)**	**181,782**	
		17,171	Other operating expenditure			26,371	
		42,040	Financing and investment income & expenditure			43,081	
		(203,950)	Taxation and non-specific grant income			(195,427)	
		(13,835)	**(Surplus) or deficit on provision of services**			**55,807**	
		(73,230)	(Surplus) or deficit on revaluation of non-current assets			8,130	
		63,540	Re-measurements of the net defined benefit liability			12,460	25
		0	(Surplus) or deficit on revaluation of available for sale financial assets			0	
		0	Other gains/losses			0	
		(9,690)	**Other comprehensive (income) and expenditure**			**20,590**	
		(23,525)	**Total comprehensive (income) and expenditure**			**76,397**	

Balance Sheet

31/03/17 £000s			31/03/18 £000s		
Gateshead	**Group**		**Gateshead**	**Group**	Notes
1,391,469	1,392,047	Property, plant & equipment	1,365,459	1,366,004	17
22,943	22,943	Heritage assets	26,703	26,703	18
1,321	1,321	Investment property	1,405	1,405	
1,657	2,265	Intangible assets	1,620	2,105	
12,367	12,367	Long-term investments	17,367	17,367	26
19,903	19,903	Long-term debtors	22,466	22,466	22
1,449,660	**1,450,846**	**Long-term assets**	**1,435,020**	**1,436,050**	
52,191	52,191	Short-term investments	71,194	71,194	26
1,411	1,411	Assets held for sale	3,640	3,640	
1,055	1,055	Inventories	306	1,331	
58,580	54,799	Short-term debtors	60,545	59,554	22
16,916	16,916	Cash and cash equivalents	16,162	16,162	21
130,153	**126,372**	**Current assets**	**151,847**	**151,881**	
(5,670)	(5,670)	Cash and cash equivalents	(6,082)	(6,082)	21
(78,005)	(78,005)	Short-term borrowing	(55,360)	(55,360)	26
(4,261)	(4,261)	Short-term provisions	(5,986)	(5,986)	24
(60,494)	(56,479)	Short-term creditors	(55,607)	(55,838)	23
(148,430)	**(144,415)**	**Current liabilities**	**(123,035)**	**(123,266)**	
(66,123)	(66,123)	Long-term creditors	(63,568)	(63,568)	23
(6,322)	(6,391)	Long-term provisions	(6,307)	(6,449)	24
(538,341)	(538,341)	Long-term borrowing	(600,867)	(600,867)	26
(542,770)	(558,710)	Pensions liability	(568,850)	(606,940)	25
(1,153,556)	**(1,169,565)**	**Long-term liabilities**	**(1,239,592)**	**(1,277,824)**	
277,827	**263,238**	**Net assets**	**224,240**	**186,841**	
		Usable reserves:			
14,423	14,423	Capital Receipts Reserve	11,601	11,601	
2,845	2,845	Capital Grants Unapplied	6,160	6,160	
16,797	16,797	General Fund - General Reserve	13,668	13,668	
5,473	5,473	General Fund - LMS Reserve	5,205	5,205	
27,359	27,359	Housing Revenue Account	33,954	33,954	
33,774	33,774	Earmarked Reserves	36,150	36,150	
0	0	Major Repairs Reserve	0	0	
0	1,351	Useable Reserves of Group Entities	0	691	
100,671	**102,022**	**Total usable reserves**	**106,738**	**107,429**	6b
177,156	**161,216**	**Unusable reserves**	**117,502**	**79,412**	6b
277,827	**263,238**	**Total reserves**	**224,240**	**186,841**	

Signed: Date:

Darren Collins
Strategic Director, Corporate Resources

Cash Flow Statement

2016/17 £000s		2017/18 £000s
(14,444)	**Net (surplus) or deficit on the provision of services**	**32,347**
	Adjustments to net surplus or deficit on the provision of service for non-cash movements:	
(43,030)	Depreciation of non-current assets	(43,904)
7,887	Impairment / downward revaluation of non-current assets	(14,056)
(894)	Amortisation of intangible non-current assets	(854)
(7,770)	Pension adjustments	(12,970)
(658)	(Increase)/decrease in impairment for provision for bad debts	(363)
2,435	Contributions (to) / from provisions	(1,710)
(9,912)	Carrying amount of property, plant and equipment, investment property, assets held for sale and intangible assets sold	(21,678)
(547)	(Decrease)/increase in inventories	(749)
(3,962)	(Decrease)/increase in debtors	5,826
5,666	Decrease/(increase) in creditors	4,437
(5)	Other non-cash movement	0
(50,790)		**(86,021)**
	Adjustments for items included in the net surplus or deficit on the provision of service that are investing or financing activities:	
7,399	Proceeds from the disposal of PPE, investment property, assets held for sale and intangible assets	8,923
27,075	Capital grants credited to surplus or deficit on the provision of services	23,066
34,474		**31,989**
(30,760)	**Net cash flows from operating activities**	**(21,685)**
	Cash flows for operating activities include the following:	
26,460	Interest paid	26,446
(1,676)	Interest received	(1,814)
(3,577)	Dividends received	(2,599)
21,207		**22,033**

	Net cash flows from investing activities:	
60,664	Purchase of property, plant and equipment, investment property, assets held for sale and intangible assets	71,463
214,936	Purchase of short term and long term investments	264,000
(7,399)	Proceeds from the sale of property, plant and equipment, investment property, assets held for sale and intangible assets	0
(227,771)	Proceeds from the sale of short term and long term investments	(8,923)
	Other receipts from investing activities:	(239,500)
(11,063)	- Capital grants received	(28,437)
29,367	**Net cash flows from investing activities**	**58,603**
	Net cash flows from financing activities:	
(31,000)	Cash receipts of short and long term borrowing	(85,000)
2,929	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-Balance Sheet PFI contracts	3,022
38,131	Repayment of short and long term borrowings	44,847
	Other payments / receipts from financing activities:	
1,636	- Business rates and council tax amounts owed to/from preceptors	1,379
11,696	**Net cash flows from financing activities**	**(35,752)**
10,303	**Net (increase) / decrease in cash and cash equivalents**	**1,166**

21,549	**Cash and cash equivalents at the beginning of the period**	**11,246**
11,246	**Cash and cash equivalents at the end of the period**	**10,080**

The Cash Flow Statement shows Council transactions only. Cash balances of The Gateshead Housing Company (TGHC) are held by the Council and are included as a creditor in the Council's Balance Sheet. These have been removed as intra-group transactions. The net decrease in TGHC's cash balance held by the Council are outline below:

7,145	**Net (increase) / decrease in cash and cash equivalents - TGHC**	**308**
7,145	**Intra-group transactions to be excluded**	**308**
10,303	**Net (increase) / decrease in cash and cash equivalents - Group**	**1,166**

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[11] 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 and contingent liabilities:** an assessment of future liabilities that may constitute provisions or contingent liabilities;
- **Group accounts:** the value of The Gateshead Housing Company, a subsidiary of the Council, warrants the preparation of group accounts. 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.

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

A number of changes to accounting standards may affect the Statement of Accounts from 1 April 2018 and may require retrospective application:

- IFRS 9 *Financial instruments*: this new standard replaces IAS 39 from 2018/19 and changes the approach to financial assets and accounting for impairments; its impact is unlikely to be material;
- IFRS 15 *Revenue from contracts*: this new standard replaces IAS 18 from 2018/19 and aims to standardise practices around recognition of revenue from contracts; its impact is unlikely to be material; and

[11] www.legislation.gov.uk/uksi/2015/234/pdfs/uksi_20150234_en.pdf

- IFRS 16 *Leases*: this new standard replaces IAS 17 from 2019/20 and establishes a new model for lessees; its impact may be material given the value of the Council's leases (see Note 11). The impact is uncertain due to the lack of detailed guidance currently available.

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 2018 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 £173.5m as at 31 March 2018; a change in methodology resulting in a 1% movement would change the Balance Sheet by £1.7m;
- **Revaluations:** a 1% change in asset valuation would equate to a £13.7m, 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 reviews 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 2017/18, the Council revalued £964m of its property, plant and equipment (£1.365bn total); 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:

2017/18 movements (£000s)	General Fund	Earmarked reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
Charges for depreciation of non-current assets	29,915	0	0	13,989	0	0	* (43,904)
Impairment and revaluation losses (charged to *surplus or deficit on provision of services*) of non-current assets	10,239	0	3,817	0	0	0	* (14,056)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	(23,069)	0	0	0	0	5,192	*17,877
Net gain or loss on sale of non-current assets	13,156	0	(418)	0	8,940	0	∞ (21,678)
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	12,814	0	156	0	0	0	≠ (12,970)
Statutory provision for repayment of debt (MRP)	(13,670)	0	0	0	0	0	* 13,670
Capital expenditure charged to the General Fund / HRA	(1,197)	0	(2,345)	2,335	0	0	* 1,207
Transfers to/from earmarked reserves	(2,376)	2,376	0	0	0	0	0
Other transfers to/from reserves required by legislation	8,420	0	103	(16,324)	(11,762)	(1,877)	Ω 26,925
Adjustments between accounting basis and funding basis under regulations	**34,232**	**2,376**	**1,313**	**0**	**(2,822)**	**3,315**	**(38,414)**

* All charged to Capital Adjustment Account; ∞ (1,739) to Revaluation Reserve and (19,939) to Capital Adjustment Account; ≠ all charged to Pension Reserve; Ω includes 24,217 to Capital Adjustment Account

2016/17 movements (£000s)							
Charges for depreciation of non-current assets	29,093	0	0	13,937	0	0	* (43,030)
Impairment and revaluation losses (charged to *surplus or deficit on provision of services*) of non-current assets	23,074	0	(32,077)	0	0	0	*9,003
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	(27,075)	0	0	0	0	1,826	* 25,249
Net gain or loss on sale of non-current assets	2,903	0	(390)	0	7,403	0	∞ (9,916)
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	7,216	0	554	0	0	0	(7,770)
Statutory provision for repayment of debt (MRP)	(15,604)	0	0	0	0	0	* 15,604
Capital expenditure charged to the General Fund / HRA	(1,331)	0	(6,399)	4,902	0	0	* 2,828
Transfers to/from earmarked reserves	2,882	(2,882)	0	0	0	0	0
Other transfers to/from reserves required by legislation	4,856	0	(13)	(18,839)	(3,803)	(1,503)	Ω 19,302
Adjustments between accounting basis and funding basis under regulations	**26,014**	**(2,882)**	**(38,325)**	**0**	**3,600**	**323**	**11,270**

* All charged to Capital Adjustment Account; ∞ (1,231) to Revaluation Reserve and (8,685) to Capital Adjustment Account; ≠ all charged to Pension Reserve; Ω includes 21,825 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 31/03/17 £000s		MTFS Review[≠] £000s	Transfers in £000s	Transfers out £000s	Balance 31/03/18 £000s
	Useable reserves				
	General Fund balance:				
16,797	General Reserve	(4,397)	12,197	(10,929)	**13,668**
5,473	LMS Budget Share Reserve	0	1,346	(1,614)	**5,205**
22,270	General Fund	(4,397)	13,543	(12,543)	**18,873**
	Earmarked General Fund reserves:				
3,000	Insurance	0	0	0	**3,000**
1,309	Strategic change	(1,309)	0	0	**0**
1,314	Grant clawback	0	0	(314)	**1,000**
6,009	Gateshead Development Pool	(6,009)	0	0	**0**
0	Workforce Development	6,009	0	0	**6,009**
1,937	Developers' contributions	0	907	(417)	**2,427**
3,642	Unapplied revenue grants	0	0	(1,690)	**1,952**
3,390	Economic growth, culture and place shaping	0	950	(128)	**4,212**
5,000	Business rates	0	0	0	**5,000**
1,794	Budget flexibility	0	1,879	(1,102)	**2,571**
781	Discretionary Social Fund	0	0	(133)	**648**
2,431	Public health	0	201	0	**2,632**
3,167	Dedicated Schools Grant (DSG)	0	0	(2,011)	**1,156**
0	Strategic revenue investment	4,206	0	0	**4,206**
0	Anti-poverty	1,000	0	(138)	**862**
0	Voluntary sector	500	0	(25)	**475**
33,774	**Total earmarked General Fund reserves:**	**4,397**	**3,937**	**(5,958)**	**36,150**
27,359	Housing Revenue Account (HRA) balance	0	6,595	0	33,954
	Earmarked HRA reserves:				
0	Major Repairs Reserve	0	13,989	(13,989)	0
14,423	Capital Receipts Reserve	0	8,942	(11,764)	11,601
2,845	Capital Grants Unapplied	0	5,278	(1,963)	6,160
100,671	**Total usable reserves**	**0**	**54,619**	**(48,552)**	**106,738**
	Unusable reserves				
202,858	Revaluation Reserve	0	(13,228)	0	189,630
511,260	Capital Adjustment Account	0	(82,115)	63,523	492,668
(3,784)	Financial Instrument Adjustment Account	0	94	0	(3,690)
12,115	Available for Sale Financial Instruments Reserve	0	0	0	12,115
400	Deferred Capital Receipts Reserve	0	0	(157)	243
264	Collection Fund Adjustment Account	0	0	(1,691)	(1,427)
(3,187)	Accumulated Absences Account	0	207	(207)	(3,187)
(542,770)	Pensions Reserve	0	0	(26,080)	(568,850)
177,156	**Total unusable reserves**	**0**	**(95,042)**	**35,388**	**117,502**
277,827	**Total reserves of the Council**	**0**	**(40,423)**	**(13,164)**	**224,240**
1,351	Profit and Loss Reserve - TGHC	**0**	**0**	**(660)**	**691**
(15,940)	Pensions Reserve - TGHC	**0**	**0**	**(22,150)**	**(38,090)**
263,238	**Total reserves of the Group**	**0**	**(40,423)**	**(35,974)**	**186,841**

[≠]Medium Term Financial Strategy Review is an annual review of earmarked reserves to ensure alignment with priorities.

Usable Reserves

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

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

The **Housing Revenue Account (HRA)** reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989[12]. 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:

- **Insurance:** the reserve is to allow for possible claims against the Council which are not covered by external policies and to cover insured liability claims falling within the claims excess and policy stop loss;
- **Strategic change:** this reserve was realigned as part of the refresh of the MTFS;
- **Grant clawback:** the reserve is for grant received which may need to be repaid as a result of clawback of externally funded projects, such as European funded schemes. The balance required is based on a specific calculation related to exposure;
- **Gateshead development pool:** this reserve was re-designated as part of the refresh of the MTFS to the workforce development pool (below);
- **Workforce development:** this reserve is to fund redundancy costs and training and development in support of the workforce plan. This is the third recourse available to fund redundancy costs corporately after use of the provision and contingency;
- **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 represents an accounting treatment;
- **Economic growth, culture and place shaping:** this reserve is to stimulate economic growth and to lever investment into the area to support Culture 2030. It provides funding to support a key theme underpinning the MTFS;
- **Business rates:** this reserve was created to mitigate the risk of current and future business rate valuation appeals and other risks associated with the business rates retention scheme;
- **Budget flexibility:** this reserve was created in 2013/14 to allow for the effective management of budgets across financial years.
- **Discretionary Social Fund:** this reserve supports social fund activities following the end of the discretionary social fund grant. The Council is committed to utilising this fund in line with the original intent;
- **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 is to be used to support the financial strategy contained within the Council MTFS by allocating investment on a time limited short term basis in order to generate future savings, manage demand through investment in prevention strategies and to generate and maximise income;
- **Anti-poverty**: this reserve is to mitigate the impact of poverty and social exclusion. The reserve supports the Anti-Poverty Strategy and also assists in alleviating the impact of welfare reform and austerity on the residents of Gateshead, consistent with Council priorities; and
- **Voluntary sector**: this reserve is used to mitigate savings in the voluntary sector where appropriate, prepare the sector for increasing demand by increasing capacity and skills, and prepare the sector for the transaction to any new operating arrangements.

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

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

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

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

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

The **Accumulated Absences Account** 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 2018. 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 28.

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:

- Income from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Income from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet. Expenses relating to services are recorded as expenditure when they are received rather than when payments are made;
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract; and
- Where 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.

b. Analysis of items below Cost of Services:

2016/17 £000s		2017/18 £000s
	Other operating expenditure	
2,513	(Gains) / losses on the disposal of non-current assets	12,755
	Precepts and levies:	
161	Environment Agency levy	163
18	Tyne Port Health Authority precept	19
11,671	Tyne and Wear Integrated Transport Authority levy	11,291
10	Lamesley Parish Council precept	11
2,798	Payments to the housing capital receipts pool	3,057
17,171		**27,296**
	Financing and investment income and expenditure	
29,997	Interest payable and similar charges	29,603
15,590	Net interest on defined benefit liability / (asset)	13,300
(1,714)	Interest receivable and similar income	(1,845)
(2,127)	(Surpluses) / deficits on trading activities	1,159
41,746		**42,217**
	Taxation and non-specific grant income	
(78,653)	Council tax income	(83,685)
(54,303)	Government grants not attributable to services	(48,411)
(27,075)	Capital grants and contributions	(23,067)
(43,919)	Business rates retained	(40,265)
(203,950)		**(195,428)**

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:

- £43.904m depreciation - *see Notes 6a, 17 and HRA Notes 5 and 6*;
- £14.056m revaluation losses - *see Notes 6a, 17 and HRA Notes 5 and 6*;
- £13.110m actuarial pension adjustments (Gateshead) - *see Note 25*;
- £19.250m actuarial pension adjustments (TGHC) – *see Note 25*; and
- £8.130m deficits 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:

2016/17 (restated) *				2017/18		
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**
119,723	(20,757)	**98,966**	Care, Wellbeing & Learning	121,953	(25,516)	96,437
22,379	16,914	**39,293**	Communities & Environment	21,299	17,607	38,907
17,106	23,509	**40,615**	Corporate Resources	16,913	15,216	32,129
4,791	4,798	**9,589**	Corporate Services & Governance and Office of the Chief Executive	5,891	7,055	12,945
(1,342)	1,345	**3**	Other Corporate Income and Expenditure	5,539	(4,776)	765
1,575	(2,892)	**(1,317)**	Schools	268	(3,604)	(3,338)
(3,250)	(53,310)	**(56,560)**	Local authority housing (HRA)	(6,595)	(12,989)	(19,584)
160,982	(30,393)	**130,589**	**Net Cost of Services**	**165,268**	**(7,007)**	**158,261**
(163,115)	18,082	(145,033)	Other income and expenditure	(168,466)	42,552	(125,914)
(2,133)	Ω **(12,311)**	**(14,444)**	**Surplus / Deficit**	**(3,198)**	Ω **35,545**	**32,347**
		47,496	**Opening General Fund and HRA balance**	**49,629**		
		$ 2,133	+/- surplus/(deficit) on General Fund and HRA balance	$ 3,198		
		49,629	**Closing General Fund and HRA balance**	**52,827**		

* Restated due to an internal restructure 2017/18 involving Services transfers from Communities and Environment to Corporate Resources
‡ 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

2016/17 (restated)					2017/18			
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
7,520	(5,700)	(22,577)	(20,757)	Care, Wellbeing & Learning	5,031	559	(31,107)	(25,517)
19,537	(1,322)	(1,301)	16,914	Communities & Environment	15,246	235	2,126	17,607
21,811	(64)	1,762	23,509	Corporate Resources	13,728	220	1,268	15,216
3,311	204	1,283	4,798	Corporate Services & Governance and Office of the Chief Executive	6,589	90	376	7,055
	2,918	(1,573)	1,345	Other Corporate Income and Expenditure	(152)	1,554	(6,178)	(4,776)
(483)	(2,407)	(2)	(2,892)	Schools	(347)	(3,236)	21	(3,604)
(53,864)	554	0	(53,310)	Local authority housing (HRA)	(13,261)	156	116	(12,989)
(2,168)	**(5,817)**	**(22,408)**	**(30,393)**	**Net Cost of Services**	**26,834**	**(422)**	**(33,420)**	**(7,007)**
(19,407)	13,585	23,904	18,082	Other income and expenditure from the Expenditure and Funding Analysis	(3,690)	13,392	32,851	42,553
(21,575)	**7,768**	**1,496**	**(12,311)**	**Difference between General Fund surplus or deficit and CIES surplus / deficit on the Provision of Services**	**23,144**	**12,970**	**(569)**	**35,545**

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.
4. Restated due to an internal restructure 2017/18 involving Services transfers from Communities and Environment to Corporate Resources.

2016/17* £000s		2017/18 £000s
	Expenditure	
*201,814	Employee expenses	197,984
*87,035	Other Services	83,069
233,965	Third party and transfer payments	234,750
19,232	Support service recharge	16,431
63,759	Depreciation, amortisation and impairment	66,081
11,860	Precepts and Levies	11,484
617,665		**609,800**
(56,560)	Housing Revenue Account (HRA)	(19,584)
	Income	
(287,705)	Government grants and contributions	(285,641)
(49,486)	Other grants, reimbursements and contributions	(53,335)
(61,981)	Fees, charges and other service income	(60,667)
(1,695)	Interest and investment income	(1,834)
(52,110)	Recharges	(32,441)
(122,572)	Income from council tax and business rates	(123,950)
(575,549)		**(557,869)**
(14,444)	**(Surplus)/Deficit on the Provision of Services**	**32,347**

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

2016/17* £000s		2017/18 £000s
	Fees, charges and other service income by segment	
(16,329)	Care, Wellbeing & Learning	(15,741)
(16,874)	Communities & Environment	(13,692)
(20,040)	Corporate Resources	(21,652)
(8,738)	Other Reporting Segments	(9,582)
(61,981)	**Total**	**(60,667)**

* Restated due to a review of the method used to allocate internal recharges

9. Dedicated Schools Grant

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

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 2014, 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 2017/18 are as follows:

	Central expenditure £000s	ISB £000s	Total £000s
Final DSG for 2017/18 before academy recoupment	25,985	114,598	140,583
Academy figure recouped for 2017/18	0	39,567	39,567
Total DSG after academy recoupment 2017/18	**25,985**	**75,031**	**101,016**
Plus: brought forward from 2016/17	2,745	422	3,167
Less: carry-forward to 2018/19 agreed in advance	0	0	0
Agreed initial budgeted distribution in 2017/18	**28,730**	**75,453**	**104,183**
In-year adjustments	(1,263)	0	**(1,263)**
Final budgeted distribution in 2017/18	**27,467**	**75,453**	**102,920**
Less: actual central expenditure	26,820		**26,820**
Less: actual ISB deployed to schools		74,944	**74,944**
Plus: local authority contribution for 2017/18	0	0	**0**
Carry-forward to 2018/19	**647**	**510**	**1,156**

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 £0.686m in 2017/18 (£0.838m in 2016/17).

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

2016/17 £000s		2017/18 £000s
	a) General government grants not attributable to Services	
(47,209)	Revenue Support and Top Up Grant	(42,123)
(7,094)	Other Grants	(6,288)
(54,303)		**(48,411)**
	b) Specific government grants attributable to Services	
(2,273)	Ministry of Housing, Communities and Local Government	(10,588)
(119,295)	Department for Education	(122,320)
(86,461)	Department for Work and Pensions	(78,884)
(17,535)	Department for Health and Social Care	(17,379)
(7,661)	Joint / other	(8,060)
(233,225)		**(237,231)**
	c) Capital grant income not attributable to Services	
(1,524)	Ministry of Housing, Communities and Local Government	(1,827)
(3,245)	Department for Education	(3,080)
(1,308)	European Regional Development Fund	(5,087)
(6,422)	Other government grants	(12,576)
(301)	Other non-government grants	(450)
(125)	Other non-government contributions	0
(12,925)		**(23,020)**
(300,453)	**Total grants and government contributions**	**(308,662)**
	d) Other contributions and donations	
(49,994)	Other revenue contributions attributable to Services	(53,464)
0	Other capital contributions not attributable to Services	0
(14,150)	Donated assets not attributable to Services	(46)
(64,144)	**Total other contributions**	**(53,510)**

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:

31/03/17 £000s		31/03/18 £000s
3,882	Not later than one year	3,885
9,637	Later than one year and not later than five years	9,179
46,740	Later than five years	46,138
60,259		**59,202**

12. Councillors' allowances

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

2016/17 £000s		2017/18 £000s
741	Basic allowance	748
414	Special responsibility allowance	418
33	Other allowances and expenses	12
1,188	**Total**	1,178

More information on the allowances scheme can be found on the Council's website[13].

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 external auditors:

2016/17 £000s		2017/18 £000s
130	Fees payable to auditors appointed under the Local Audit and Accountability Act 2014	130
12	Fees payable for the certification of grant claims and returns for Public Sector Audit Appointments Ltd (PSAA)	12
5	Other claims / returns not on behalf of PSAA	8
0	Costs relating to the received objection to the 2016/17 accounts	5
147	**External audit costs - Gateshead Council**	**155**

The following table outlines the Group spending on external auditors during the year:

2016/17 £000s		2017/18 £000s
147	External audit costs – Council (Mazars)	155
18	External audit costs – TGHC (KPMG)	25
165	**External audit costs - Group**	**180**

[13] See www.gateshead.gov.uk/Council%20and%20Democracy/Councillors-and-committees/MembersAllowancesScheme.aspx

14. Officers' remuneration

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

Remuneration of senior employees 2017/18					
Post holder information	Salary, fees & allowances	Expenses allowances *	Non-cash benefits	Pension contribution	**Total**
	£	£	£	£	**£**
Chief Executive, S Ramsey	161,490	6,892	0	29,391	**197,773**
Strategic Director, Corporate Resources	114,832	0	0	20,899	**135,731**
Strategic Director, Communities and Environment	114,832	0	0	20,899	**135,731**
Strategic Director, Corporate Services and Governance	114,832	0	0	20,899	**135,731**
Strategic Director, Care, Wellbeing & Learning (from 04/09/2017)	75,588	0	0	13,820	**89,408**
Director of Public Health	85,974	0	22	12,363	**98,359**
	667,548	**6,892**	**22**	**118,271**	**792,733**

Remuneration of senior employees 2016/17					
Post holder information	Salary, fees & allowances	Expenses allowances *	Non-cash benefits	Pension contribution	**Total**
	£	£	£	£	**£**
Chief Executive, J Robinson (end date 14 Aug 2016)	59,315	20,516	97	9,312	**89,240**
Chief Executive (interim), M Barker (15 Aug 2016 -26 Feb 2017)	86,301	0	0	13,549	**99,850**
Chief Executive, S Ramsey (from 27 Feb 2017)	14,276	0	0	2,241	**16,517**
Strategic Director, Corporate Resources	113,695	0	0	17,850	**131,545**
Strategic Director, Corporate Services and Governance	52,329	0	0	8,215	**60,544**
Interim Strategic Director, Care, Wellbeing & Learning (post holder 1; to 15 Jul 2016)	34,114	0	0	0	**34,114**
Interim Strategic Director, Care, Wellbeing & Learning (post holder 2; 25 Jul 2016 - 28 Feb 2017)	102,120	0	0	0	**102,120**
Strategic Director, Communities and Environment	113,695	0	0	17,850	**131,545**
Locality Director of Public Health (end date 15 May 2016)	11,741	0	90	1,664	**13,495**
Director of Public Health (from 16 May 2016)	80,596	0	87	11,513	**92,196**
	668,182	**20,516**	**274**	**82,194**	**771,166**

* Returning Officer fees

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 2017/18 to indicate the cost impact on senior staff:

	Number of Employees			
	Incl. redundancies		Excl. redundancies	
	2016/17	2017/18	2016/17	2017/18
Gateshead Council staff				
£50,000 - £54,999	44	46	40	45
£55,000 - £59,999	33	31	31	30
£60,000 - £64,999	26	23	24	23
£65,000 - £69,999	17	17	17	17
£70,000 - £74,999	5	5	5	5
£75,000 - £79,999	11	5	11	5
£80,000 - £84,999	2	6	2	6
£85,000 - £89,999	2	2	2	2
£90,000 - £94,999	6	2	6	2
£95,000 - £99,999	1	4	1	4
£100,000 - £104,999	0	0	0	0
£105,000 - £109,999	1	0	1	0

	Incl. redundancies		Excl. redundancies	
	2016/17	2017/18	2016/17	2017/18
Group staff				
£50,000 - £54,999	47	48	43	47
£55,000 - £59,999	34	32	31	32
£60,000 - £64,999	26	23	24	23
£65,000 - £69,999	17	17	17	17
£70,000 - £74,999	6	5	5	5
£75,000 - £79,999	11	6	11	5
£80,000 - £84,999	2	7	2	7
£85,000 - £89,999	2	2	2	2
£90,000 - £94,999	7	4	7	3
£95,000 - £99,999	1	4	1	4
£100,000 - £104,999	0	0	0	0
£105,000 - £109,999	1	0	1	0
£110,000 - £149,999	1	1	1	1

Termination benefits / Exit packages

The 2017/18 Statement of Accounts recognises a cost of £4.315m in relation to redundancies and other terminations. This includes 13 compulsory redundancies (59 in 2016/17), 86 voluntary redundancies (29 in 2016/17) and 4 other terminations (1 in 2016/17). The actual cost of redundancies and other terminations in 2017/18 totalled £3.406m. £2.605m of this expenditure was funded from the provision and recognised in 2016/17, with the remaining expenditure of £0.801m being funded from revenue. In addition, as part of the 2017/18 revenue outturn, a provision of £3.514m was created for redundancies in 2018/19 and 2019/20. These costs include redundancy payments made to employees and strain on the fund costs payable to the appropriate pension fund:

2016/17					Exit package cost band	2017/18				
Number				Cost		Number				Cost
CRs	VRs	Other	Total	£000s		CRs	VRs	Other	Total	£000s
8	17	1	26	102	£0 - £20,000	11	7	4	22	115
51	6	0	57	1,608	£20,001 - £40,000	2	6	0	8	228
0	1	0	1	45	£40,001 - £60,000	0	69	0	69	3,611
0	2	0	2	146	£60,001 - £80,000	0	2	0	2	129
0	2	0	2	174	£80,001 - £100,000	0	1	0	1	83
0	1	0	1	112	£100,001 - £150,000	0	1	0	1	149
0	0	0	0	0	£150,001 - £200,000	0	0	0	0	0
59	**29**	**1**	**89**	**2,187**	**Total**	**13**	**86**	**4**	**103**	**4,315**

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 2017/18 is shown in Note 12. During 2017/18, 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 2017/18, 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. At present, it is not felt that the values or nature of the 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 £11.583m (£11.583m in 2016/17).The shares are not held for trading outside of the LA7.

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially change the valuation. The last valuation is based on the sale of shares to AMP Capital Investors Limited in 2012. As no such events have occurred during 2017/18 the valuation has remained unchanged.

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. A dividend of £0.952m was received for the year ended 31st December 2017 (£2.923m for the year ended 31st December 2016).

Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012/13, issuing £67.665m shareholder loan notes. The loan notes will be repayable in 2032 with interest being received up to that date on a 6 monthly basis. Otherwise there are no outstanding balances owed to or from NIAL at the end of the year.

NIAL Group Limited made a profit before tax of £6.884m and a profit after tax of £4.408m for the year ended 31st December 2017. In the previous year, the Group made a profit before tax of £2.266m and a profit after tax of £0.499m.

Gateshead Trading Company
The Gateshead Trading Company Ltd (GTC) is a wholly owned subsidiary of the Council limited by shares. Its activities during 2017/18 included construction, design services and economic development. The company's turnover in 2017/18 was £1.960m (£1.577m in 2016/17). The company's cost of sales in 2017/18 was £1.942m (£1.542m in 2016/17). The company made a loss of £0.026m in 2017/18 (profit of £0.012m in 2016/17). GTC does not employ personnel other than directors and therefore does not have a pension liability.

Gateshead Energy Company
The Gateshead Energy Company (GEC) is a wholly owned subsidiary of the Council limited by shares. 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 2017/18 was £1.165m (£0.323m in 2016/17). The company's cost of sales in 2017/18 was £1.651m (£0.369m in 2016/17). The company made a loss of £0.640m in 2017/18 (loss of £0.323m in 2016/17). GEC does not employ personnel other than directors and therefore does not have a pension liability.

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 2018 employs 767 members of staff (768.05 FTE). TGHC made a loss of £23.460m for the year ended 2017/18 (loss of £0.609m in 2016/17). The company's turnover was £57.435m in 2017/18 (£36.737m in 2016/17). The company's operating costs totalled £80.028m in 2017/18 (£37.049m in 2016/17). The pension liability increased significantly in 2017/18 to £38.090m due to the transfer of staff to the company (£15.940m in 2016/17).

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
On 27 March 2012, the Council formally appointed Evolution Gateshead, a consortium of Home Group and Galliford Try, as partner in a joint venture vehicle to be known as the Gateshead Regeneration Partnership (GRP), part of the Council's Housing Growth Strategy. The Council has 50% control of this partnership. The first sites were transferred to GRP for development from Council ownership in March 2014.

Construction is ongoing on the first tranche of sites at Saltwell and Birtley (totalling 293 homes) with 16 affordable properties completed and 43 open market sales during 2017/18. During the year, GRP secured planning permission for a further 114 homes on sites in Windy Nook, Saltwell and Rowlands Gill, with construction due to commence in 2018/19.

GRP made a profit of £0.226m for the year ended 2016/17 (£0.556m in 2015/16). The company's turnover was £8.244m in 2016/17 (£10.124m in 2015/16). The company's cost of sales was £8.018m in 2016/17 (£9.568m in 2015/16). GRP does not employ personnel other than directors and therefore does not have a pension liability.

The financial projections of the company indicate that its overall profits in 2017/18 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 2017/18 accounts will be published by 31 December 2018.

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).

On 8 November 2016, cabinet approved a reorganisation of housing and construction functions. From 1 April 2017, some construction services transferred to the Gateshead Housing Company, with highways and maintenance functions remaining within the Council. 2016/17 figures have been restated to reflect this:

2016/17 (Profits) / losses £000s		2017/18 Income £000s	Expenditure £000s	(Profits) / losses £000s
410	Building Cleaning	(4,250)	4,543	293
32	Civic Restaurants	(956)	1,050	94
(1,808)	Construction	(1,929)	2,243	314
488	Fleet	(7,390)	7,711	321
(481)	Maintenance	(6,925)	6,806	(119)
(343)	School Meals	(5,998)	5,994	(4)
183	Security	(809)	1,288	479
(608)	Highways	(15,693)	15,474	(219)
(2,127)		**(43,950)**	**45,109**	**1,159**

17. Property, plant and equipment

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

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

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

  Assets are then carried in the Balance Sheet using the following measurement bases:
  - Infrastructure assets, community assets, vehicles, plant & equipment and assets under construction (excluding investment property) are included in the Balance Sheet at historical cost, net of depreciation, where appropriate;
  - Dwellings are measured at 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.

  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*[14] 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.

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

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.

Fair value using:	Level 1 £000s	Level 2 £000s	Level 3 £000s	**Total £000s**
Residential Land	0	26,742	0	**26,742**
Offices	0	1,185	0	**1,185**
Total	0	**27,927**	0	**27,927**

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 at cost	Surplus assets $	**Total**
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance at 1 April 2016	**472,835**	**58,533**	**9,912**	**77,397**	**622,129**	**174,767**	**4,812**	**23,962**	**1,444,347**
Reclassifications	2,536	0	(18,320)	(42)	(649)	9,317	70	4,552	(2,536)
Additions	9,349	0	15,211	5,350	18,931	11,468	228	283	60,820
Donations	14,150	0	0	0	0	0	0	0	14,150
Disposals	(2,325)	0	0	(5,091)	(5,707)	(1,419)	0	(341)	(14,883)
Revaluation increase/(decrease) to Revaluation Reserve	(4,035)	(6,252)	0	0	67,134	0	0	304	57,151
Revaluation increase/(decrease) to Comprehensive I&E	(25,806)	(1,517)	0	0	33,661	0	0	(1,114)	5,224
Impairment Charged to Revaluation Reserve	(39)	0	0	0	0	0	0	0	(39)
Impairment Charged to Comprehensive I&E	(1,094)	0	0	0	(779)	0	0	0	(1,873)
Balance at 31 March 2017	**465,571**	**50,764**	**6,803**	**77,614**	**734,720**	**194,133**	**5,110**	**27,646**	**1,562,361**
Reclassifications	6,289	0	(7,042)	(37)	(105)	0	0	(2,220)	(3,115)
Additions	11,358	0	6,358	6,464	25,335	16,702	803	172	67,192
Donations	0	0	0	0	0	0	0	0	0
Disposals	(13,294)	0	0	(14,542)	(7,315)	0	0	(72)	(35,223)
Revaluation increase/(decrease) to Revaluation Reserve	222	(1,808)	0	0	(26,295)	0	0	(110)	(27,991)
Revaluation increase/(decrease) to Comprehensive I&E	(17,451)	(500)	0	0	(6,315)	0	(1)	(26)	(24,293)
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 2018	**452,695**	**48,456**	**6,119**	**69,499**	**720,025**	**210,835**	**5,912**	**25,390**	**1,538,931**

* 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
Balance at 1 April 2016	**(29,049)**	**(4,674)**	**0**	**(61,416)**	**(11,262)**	**(50,886)**	**(1)**	**(57)**	**(157,345)**
Reclassifications	624	0	0	0	7	0	0	(327)	304
Disposals	34	0	0	5,075	103	404		0	5,616
Depreciation written out to Revaluation Reserve on revaluation	2,172	3,199	0	0	10,358	0	0	372	16,101
Depreciation written out to Comprehensive I&E on revaluation	4,648	1,475	0	0	751	0	0	11	6,885
Depreciation	(15,588)	(2,308)	0	(5,604)	(13,734)	(5,722)	0	(64)	(43,020)
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	567	0	0	0	0	0	0	0	567
Balance at 31 March 2017	**(36,592)**	**(2,308)**	**0**	**(61,945)**	**(13,777)**	**(56,204)**	**(1)**	**(65)**	**(170,892)**
Reclassifications	217	0	0	22	2	0	0	44	285
Disposals	0	0	0	14,177	137	0	0	0	14,314
Depreciation written out to Revaluation Reserve on revaluation	2,371	1,808	0	0	11,040	0	0	0	15,219
Depreciation written out to Comprehensive I&E on revaluation	8,404	500	0	0	2,597	0	0	5	11,506
Depreciation	(15,380)	(2,308)	0	(6,111)	(13,787)	(6,318)	0	0	(43,904)
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 2018	**(40,980)**	**(2,308)**	**0**	**(53,857)**	**(13,788)**	**(62,522)**	**(1)**	**(16)**	**(173,472)**

	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 31/03/2017	**428,979**	**48,456**	**6,803**	**15,669**	**720,943**	**137,929**	**5,109**	**27,581**	**1,391,469**
Net Book Value at 31/03/2018	**411,715**	**46,148**	**6,119**	**15,642**	**706,237**	**148,313**	**5,911**	**25,374**	**1,365,459**

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

Revaluations

Valuations are summarised in the table below:

	Land and buildings £000s	Council dwellings £000s	Surplus assets £000s	**Total valuation £000s**
Assets valued 1 April 2017	208,178	719,992	25,375	**953,545**
Assets valued 1 April 2016	223,865	734,720	27,646	**986,231**
Assets valued 1 April 2015	283,751	633,311	370	**917,432**
Assets valued 1 April 2014	192,570	630,684	5,183	**828,437**
Assets valued 1 April 2013	166,547	683,745	2,275	**852,567**
Assets valued 1 April 2012	249,140	677,000	33,911	**960,051**

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 Cultural Services, 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 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 Cultural Services.

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 392 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 valued at £1.7m on display at the Shipley Art Gallery[15]; a full list of exhibition listings and the Tyne and Wear Museums' access policy is available on their website.

- **Public artwork:** the collection includes a number of sculptures on display throughout Gateshead, including the Angel of the North.
- **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 2016/17:					
1 April 2016	7,256	379	0	14,199	21,834
Reclassified from PPE	0	0	861	0	861
Additions	0	0	0	0	0
Disposals	0	0	0	0	0
Upward Revaluations	0	0	95	153	248
31 March 2017	**7,256**	**379**	**956**	**14,352**	**22,943**
Cost or Valuation 2017/18:					
1 April 2017	7,256	379	956	14,352	22,943
Reclassified from PPE	0	0	0	0	0
Additions	0	0	0	0	0
Donations	0	0	0	46	46
Disposals	0	0	0	0	0
Upward Revaluations	3,696	0	0	18	3,714
31 March 2018	**10,952**	**379**	**956**	**14,416**	**26,703**

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[16]).

Capital commitments

At 31 March 2018 the Council had £9.3m of contractual commitments for the construction or enhancement of property, plant and equipment (£14.7m in 2016/17). These relate to the following schemes:

- Construction of the Northern Centre for Emerging Technology (PROTO) £1.4m
- Investment in MetroGreen £0.4m
- Investment in leisure centre energy network £0.3m
- Investment in capital loans to Gateshead Trading Company - Lyndhurst £5.3m
- Investment in capital loans to Gateshead Trading Company - Derwentside £1.9m

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):

[15] See http://www.twmuseums.org.uk/shipley-art-gallery.html
[16] See http://www.legislation.gov.uk/ukpga/2003/26/contents

2016/17 £000s		2017/18 £000s
701,815	**Opening capital financing requirement**	**714,606**
	Capital investment	
60,820	Property, plant and equipment	67,192
0	Heritage assets	0
0	Investment properties	0
949	Intangible assets	802
17	Assets held for sale	125
2,773	Revenue expenditure funded from capital under statute	3,363
500	Long-term debtors relating to capital transactions	3,300
0	Acquisition of PFI assets	0
	Sources of finance	
(2,394)	Capital receipts	(8,102)
(31,442)	Government grants and other contributions	(36,032)
	Sums set aside from revenue:	
(2,828)	Direct revenue contributions	(1,207)
(15,604)	MRP/loans fund principal	(13,670)
714,606	**Closing capital financing requirement**	**730,377**
	Explanation of movements in year:	
(5,129)	Increase/(decrease) in underlying need to borrowing (supported by government financial assistance)	(2,547)
20,849	Increase in underlying need to borrowing (unsupported by government financial assistance)	21,346
(2,929)	Assets acquired under PFI/PPP contracts	(3,022)
12,791	**Increase/(decrease) in capital financing requirement**	**15,777**

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

31/03/17 £000s			31/03/18 £000s	
Schools	**Waste**		**Schools**	**Waste**
24,172	**55,991**	**Opening values**	**23,613**	**50,516**
8	0	Additions	3	0
0	0	Disposals	0	0
0	(3,095)	Downward revaluations	433	0
0	0	Upward revaluations	969	0
(567)	(2,380)	Depreciation	(620)	(2,381)
23,613	**50,516**	**Closing values**	**24,398**	**48,135**

b) Analysis of movements in PFI liabilities

The following transactions were processed during 2017/18:

31/03/17 £000s			31/03/18 £000s	
Schools	**Waste**		**Schools**	**Waste**
1,163	4,247	Services	1,480	4,446
0	664	Lifecycle	0	663
746	2,183	Capital repayment	795	2,227
1,619	943	Interest	1,570	898
1,035	118	Contingent rent	756	206
4,563	**8,155**	**Total payment**	**4,601**	**8,440**
(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
1,673	**6,350**	**Net payment**	**1,711**	**6,635**

Contingent rents included above relate to contractual clauses for general inflation[17].

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

31/03/17 £000s			31/03/18 £000s	
Schools	**Waste**		**Schools**	**Waste**
(24,453)	**(45,810)**	**Opening values**	**(23,707)**	**(43,627)**
0	0	Additions	0	0
746	2,183	Repayment of capital	795	2,227
(23,707)	**(43,627)**	**Closing values**	**(22,912)**	**(41,400)**

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

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	848	2,273	1,517	852	2,274	4,107	**11,871**
– between 1 and 5 years	3,991	7,703	5,469	2,991	9,504	18,130	**47,788**
– between 5 and 10 years	6,667	8,694	5,158	2,866	12,872	24,579	**60,836**
– between 10 and 15 years	9,187	9,813	2,637	1,940	14,110	24,586	**62,273**
– between 15 and 20 years	2,218	10,158	147	933	751	25,561	**39,768**
– between 20 and 25 years	0	2,759	0	57	0	4,534	**7,350**
	22,911	**41,400**	**14,928**	**9,639**	**39,511**	**101,497**	**229,886**

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:

31/03/17 £000s		31/03/18 £000s
51	Cash held by officers	45
(5,670)	Bank overdraft	(6,082)
16,865	Short-term deposits	16,117
11,246	**Total cash and cash equivalents - Council**	**10,080**
4,578	Cash - TGHC	4,886
4,578	Intra-group cash to be excluded	4,886
11,246	**Group total**	**10,080**

The TGHC cash balances are held by the Council and are included as creditors in the Council Balance Sheet. The removal of intra-group transactions means there is no impact on the Group position.

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 2017 £000s			31 March 2018 £000s	
< 1 year	> 1 year		< 1 year	> 1 year
9,498	0	Central government bodies	11,184	0
7,576	0	NHS bodies	12,632	0
8,422	0	Other local authorities	5,954	0
447	0	Other public bodies	215	0
32,637	19,903	Bodies external to general government	30,560	22,466
58,580	**19,903**	**Total – Council**	**60,545**	**22,466**
5,586	0	Debtors - TGHC	2,120	**0**
9,366	0	Intra-group debtors to be excluded	3,111	**0**
54,800	**19,903**	**Group total**	**59,554**	**22,466**

The debtors' balance represents the amount due to the Council from customers or grants outstanding from funding bodies. A bad debt provision of £12.210m 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 (2016/17: £11.847m).

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 2018/19:

31 March 2017 £000s			31 March 2018 £000s	
< 1 year	> 1 year		< 1 year	> 1 year
(8,881)	0	Central government bodies	(14,346)	(375)
(2,135)	0	NHS bodies	(669)	0
(6,978)	0	Other local authorities	(6,400)	0
(1,962)	0	Other public bodies	(16)	0
(40,538)	(66,123)	Bodies external to general government	(34,176)	(63,193)
(60,494)	**(66,123)**	**Total – Council**	**(55,607)**	**(63,568)**
(9,930)	0	Creditors - TGHC	(8,228)	0
(13,944)	0	Intra-group debtors to be excluded	(7,997)	0
(56,480)	**(66,123)**	**Group total**	**(55,838)**	**(63,568)**

24. Provisions and contingent liabilities

Provisions

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made); the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (for example: from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation. Movements in provisions during 2017/18 were as follows:

Balance 31/03/17		Receipts	Payments	New provision	Reversals	Balance 31/03/18
(1,656)	Business rate appeals: refunds following successful appeals		1,656	(2,472)		(2,472)
(2,605)	Future redundancies: costs associated with known redundancies	0	2,605	(3,514)	0	(3,514)
(4,261)	**Short-term provisions**	**0**	**4,261**	**(5,986)**	**0**	**(5,986)**
(6,322)	Insurance - costs associated with future insurance claim settlements	(2,314)	2,314	(109)	124	(6,307)
(6,322)	**Long-term provisions**	**(2,314)**	**2,314**	**(109)**	**124**	**(6,307)**
(10,583)	**Total provisions**	**(2,314)**	**6,575**	**(6,095)**	**124**	**(12,293)**

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.

An additional transfer of staff from the Council to The Gateshead Housing Company on 1 April 2017 resulted in an increase in the deficit of £22.150m to £38.090m (£15.940m in 2016/17). In the unlikely 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.

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)[18]. 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 2017/18, the Council paid £6.133m to the TPA in respect of teachers' retirement benefits, representing 16.4% (plus a 0.08% levy) of pensionable pay (the figures for 2016/17 were £6.223m and 16.4% plus a 0.08% levy with an employer cost cap of 10.9%). In addition, the Council is responsible for all pension payments relating to added years it has awarded, together with related increases. In 2017/18, these amounted to £3.514m, representing 7.4% of pensionable pay (£3.560m and 7.4% in 2016/17). 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[19], 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:

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

- 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 2017/18, the Council paid £30.881m (£34.053m in 2016/17) to the Pension Fund in respect of pension contributions, representing 18.2% of pensionable pay (15.7% in 2016/17) and early retirement strain on the fund payments.

The scheme is accrued in accordance with the requirements of International Accounting Standard 19 *Employee Benefits*[20] (IAS 19). This accounts for retirement benefits when they are committed to be given, even if the actual giving is many years into the future. IAS 19 also requires the inclusion of the Council's attributable share of the fund's assets and liabilities. Further information on the Tyne and Wear Pension Fund can be found in their Annual Report. This is available upon request from South Tyneside Council.

Transactions relating to retirement benefits

The Council recognises the cost of retirement benefits in the *Cost of Services* when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge made against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement (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	
	31/03/17 * £m	31/03/18 £m	31/03/17 * £m	31/03/18 £m
CIES:				
Cost of Services:				
Current service cost	25.14	32.21	0.00	0.00
Past service cost (including curtailments)	4.17	1.94	0.01	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)	12.48	10.78	3.11	2.52
Pension expense charged to Surplus/Deficit on Provision of Services	**41.79**	**44.93**	**3.12**	**2.52**
Pension expense charged *to Other Comprehensive Income and Expenditure*:				
Re-measurement of net defined benefit liability:				
- Return on plan assets	(159.09)	(11.98)	0.00	0.00
- Actuarial (gains)/losses due to:	0.00	25.77	0.00	1.20
changes in financial assumptions	254.96	0.00	9.60	0.00
changes in demographic assumptions	2.66	7.04	2.71	0.95
liability experience	(48.20)	0.00	(4.60)	0.00
Net decrease in liabilities from disposals (TGHC)	0.00	(9.87)	0.00	0.00
Total amount charged to *Other Comprehensive Income and Expenditure*	**50.33**	**10.96**	**7.71**	**2.15**
Total amount recognised charged to the CIES	**92.12**	**55.89**	**10.83**	**4.67**

[20] See www.ifrs.org/issued-standards/list-of-standards/ias-19-employee-benefits/

The total amount charged to *Other Comprehensive Income and Expenditure* (funded and unfunded) totalled £13.3m (£22.98m actuarial loss and £9.87m decrease in liabilities due to the transfer of staff to TGHC) as disclosed in the Comprehensive Income and Expenditure Statement; the cumulative actuarial loss recognised to 31 March 2018 was £421.84m (2016/17: £58.04m in-year gain and £398.86m cumulative loss).

Movement in Reserves Charges				
	Funded liabilities		Unfunded liabilities	
	31/03/17 £m	31/03/18 £m	31/03/17 £m	31/03/18 £m
Movement in Reserves Statement				
Net charges made for retirement benefits in accordance with the Code	10.08	15.12	(2.31)	(2.15)
Actual amount charged against the General Fund for pensions in the year				
Employer contributions payable to the scheme	31.69	28.98		
Retirement benefits payable to pensioners			5.46	5.51

Assets and liabilities in relation to retirement benefits:

Reconciliation of the present value of Fund liabilities (defined benefit obligation)				
	Funded liabilities		Unfunded liabilities	
	2016/17 * £m	2017/18 £m	2016/17 * £m	2017/18 £m
Opening defined benefit obligation at 1 April	**1,247.61**	**1,496.74**	**94.12**	**99.49**
Current service cost	25.14	32.21	0.00	0.00
Interest expense on defined benefit obligation	41.47	37.38	3.11	2.52
Contributions from employees (Fund participants)	6.39	6.12	0.00	0.00
Re-measurement (gains) and losses:				
Actuarial (gains)/losses on liabilities:				
financial assumptions	254.96	25.77	9.60	1.20
demographic assumptions	2.66	0.00	2.71	0.00
experience	(48.20)	7.04	(4.60)	0.95
Net decrease in liabilities from disposals (to TGHC)	0.00	(25.21)	0.00	0.00
Net benefits paid out	(43.97)	(42.60)	(5.46)	(5.51)
Past service cost (including curtailments)	4.17	1.94	0.01	0.00
Settlements (liabilities extinguished)	0.00	0.00	0.00	0.00
Closing defined benefit obligation at 31 March	**1,490.23**	**1,532.88**	**99.49**	**98.65**

Reconciliation of fair value of the scheme assets:

Reconciliation of the movements in the fair value of Fund assets				
	Funded liabilities		Unfunded liabilities	
	2016/17 £m	2017/18 £m	2016/17 £m	2017/18 £m
Opening fair value of Fund assets	**855.34**	**1,037.52**	**0.00**	**0.00**
Interest income on assets	28.99	26.60	0.00	0.00
Re-measurement gains and (losses) on assets	159.09	11.98	0.00	0.00
Employer contributions	31.68	28.97	5.46	5.51
Employee contributions	6.39	6.12	0.00	0.00
Net benefits paid out	(43.97)	(42.60)	(5.46)	(5.51)
Net increase in assets from disposals/acquisitions	0.00	(15.34)	0.00	0.00
Settlements	0.00	0.00	0.00	0.00
Closing fair value of Fund assets	**1,037.52**	**1,053.25**	**0.00**	**0.00**

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

	2016/17 £m	2017/18 £m
Interest income on assets	28.99	26.60
Re-measurement gain / (loss) on assets	159.09	11.98
Actual return on assets	**188.08**	**38.58**

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

	31/03/17	31/03/18		
	Total	Quoted	Unquoted	Total
Equity investments	66.9%	60.7%	6.3%	67.0%
Property	9.2%	0.0%	8.5%	8.5%
Government bonds	3.9%	4.0%	0.0%	4.0%
Corporate bonds	11.5%	11.7%	0.0%	11.7%
Cash	2.6%	3.7%	0.0%	3.7%
Other assets	5.9%	3.5%	1.6%	5.1%
	100.0%	**83.6%**	**16.4%**	**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:

* Restated to include TGHC's pension deficit	2016/17 * £m	2017/18 £m
Funded:		
Fair value of Fund assets	1,037.52	1,053.25
Present value of the unfunded defined benefit obligation	(1,480.80)	(1,523.45)
	(443.28)	(470.20)
Unfunded:		
Present value of the unfunded defined benefit obligation	(99.49)	(98.65)
Asset / (liability) recognised on Balance Sheet	**(542.77)**	**(568.85)**

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 2019 are estimated to be £28.02m. In addition, strain on the fund contributions may be required. It is also expected that the Council will pay £5.68m directly to beneficiaries (unfunded and teachers).

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 32.5%
- Deferred members 31.6%
- Pensioners and dependants 35.9%

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 Hewitt Limited, 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 2016 (unfunded benefits: 31 March 2018).

A building block approach is employed in determining the rate of return on fund assets. Historic markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out in the assumption table below. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the fund at 31 March 2018:

	Funded Liabilities		Unfunded Liabilities	
	2016/17	2017/18	2016/17	2017/18
Financial assumptions (% per annum)				
Discount rate for Fund liabilities	2.6%	2.6%	2.6%	2.6%
Rate of inflation - RPI	3.1%	3.2%	3.1%	3.2%
Rate of inflation - CPI	2.0%	2.1%	2.0%	2.1%
Rate of increase to pensions in payment	2.0%	2.1%	2.0%	2.1%
Rate of increase to deferred pensions	2.0%	2.1%	N/A	N/A
Rate of general increase in salaries	3.5%	3.6%	N/A	N/A
Mortality assumptions				
Longevity at 65 for current pensioners:				
Men	22.8	22.9	22.8	22.9
Women	26.3	26.4	26.3	26.4
Longevity at 65 for future pensioners (currently aged 45):				
Men	25.0	25.1	N/A	N/A
Women	28.6	28.7	N/A	N/A
Commutation 2017/18 and 2016/17: 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	
	31/03/17 £m	31/03/18 £m
CIES:		
Cost of Services:		
Current service cost	27.14	38.18
Past service cost (including curtailments)	4.57	1.97
Settlement cost	0.00	0.00
Financing and Investment Income and Expenditure:		
Interest on net defined benefit liability/(asset)	15.89	14.17
Pension expense charged to Surplus/Deficit on Provision of Services	**47.60**	**54.32**
Pension expense charged *to Other Comprehensive Income and Expenditure*:		
Re-measurement of net defined benefit liability:		
- Return on plan assets	(168.32)	(15.23)
- Total actuarial (gains)/losses	230.39	34.98
Net decrease in liabilities from disposals (TGHC)	0.00	(9.87)
Total amount charged to *Other Comprehensive Income and Expenditure*	**62.07**	**9.88**
Total amount recognised charged to the CIES	**109.67**	**64.20**

The total amount charged to *Other Comprehensive Income and Expenditure* (funded and unfunded) totalled £64.20m.

Assets and liabilities in relation to retirement benefits

Reconciliation of the present value of Fund liabilities (defined benefit obligation)		
	Group Total	
	2016/17 £m	2017/18 £m
Opening defined benefit obligation at 1 April	**1,392.96**	**1,657.17**
Current service cost	27.14	38.18
Interest expense on defined benefit obligation	46.35	43.15
Contributions from employees (Fund participants)	6.93	7.28
Re-measurement (gains) and losses:		
Actuarial (gains)/losses on liabilities	230.39	35.18
Net benefits paid out	(51.17)	(50.57)
Past service cost (including curtailments)	4.57	1.97
Settlements (liabilities extinguished)	0.00	58.16
Closing defined benefit obligation at 31 March	**1,657.17**	**1,790.52**

Reconciliation of fair value of the scheme assets:

Reconciliation of the movements in the fair value of Fund assets		
	Group Total	
	2016/17 £m	2017/18 £m
Opening fair value of Fund assets	**855.34**	**1,037.52**
Interest income on assets	30.46	28.98
Re-measurement gains and (losses) on assets	166.85	12.85
Employer contributions	38.82	37.80
Employee contributions	6.93	7.28
Net benefits paid out	(51.17)	(50.57)
Net increase in assets from disposals/acquisitions	0.00	23.57
Settlements	**1,047.23**	**1,097.43**
Closing fair value of Fund assets		

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

	2016/17 £m	2017/18 £m
Interest income on assets	30.46	28.98
Re-measurement gain / (loss) on assets	166.85	12.85
Actual return on assets	**197.31**	**41.83**

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

	31/03/17 Group Total	31/03/18 Group Total
Equity investments	66.9%	67.0%
Property	9.2%	8.9%
Government bonds	3.9%	4.0%
Corporate bonds	11.5%	11.6%
Cash	2.6%	3.2%
Other assets	5.9%	5.5%
	100.0%	**100.0%**

Scheme history of gains and losses

	2016/17 £m	2017/18 £m
Funded:		
Fair value of Fund assets	1,089.03	1,148.94
Present value of the unfunded defined benefit obligation	(1,548.25)	(1,657.23)
	(459.22)	(508.29)
Unfunded:		
Present value of the unfunded defined benefit obligation	(99.49)	(98.65)
Asset / (liability) recognised on Balance Sheet	**(558.71)**	**(606.94)**

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 2019 are estimated to be £28.02m. In addition, strain on the fund contributions may be required. It is also expected that the Council will pay £5.68m directly to beneficiaries (unfunded and teachers).

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	36%	52%
Deferred Pensioners	12%	11%
Pensioners	52%	37%

Actuarial assumptions

	Group Total	
	2016/17	2017/18
Financial assumptions (% per annum)		
Discount rate for Fund liabilities	2.6%	2.6%
Rate of inflation - RPI	3.1%	3.2%
Rate of inflation - CPI	2.0%	2.1%
Rate of increase to pensions in payment	2.0%	2.1%
Rate of increase to deferred pensions	2.0%	2.1%
Rate of general increase in salaries	3.5%	3.6%
Mortality assumptions		
Longevity at 65 for current pensioners:		
Men	22.8	22.9
Women	26.3	25.4
Longevity at 65 for future pensioners (currently aged 45):		
Men	25.0	25.1
Women	28.6	28.7

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 2018 and the projected service cost for the year ending 31 March 2019 is set out below:

	Council		TGHC	
Funded LGPS benefits				
Discount rate assumption:				
Adjustment to discount rate	**+0.1% p.a.**	**-0.1% p.a.**	**+0.1% p.a.**	**-0.1% p.a.**
Present value of total obligation (£m)	1,495.2	1,552.2	130.7	136.9
% change in present value of total obligation	-1.9%	1.9%	-2.3%	2.3%
Projected service cost (£m)	33.28	35.36	5.99	6.37
Approximate % change in projected service cost	-3.0%	3.1%	-3.1%	3.2%
Rate of general increase in salaries:				
Adjustment to salary rate increase	**+0.1% p.a.**	**-0.1% p.a.**	**+0.1% p.a.**	**-0.1% p.a.**
Present value of total obligation (£m)	1,530.5	1,516.5	135.0	132.6
% change in present value of total obligation	50.0%	-50.0%	0.9%	-9.0%
Projected service cost (£m)	34.31	34.31	6.18	6.18
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	**+0.1% p.a.**	**-0.1% p.a.**	**+0.1% p.a.**	**-0.1% p.a.**
Present value of total obligation (£m)	1,545.1	1,502.1	135.7	131.9
% change in present value of total obligation	1.4%	-1.4%	1.4%	-1.4%
Projected service cost (£m)	35.36	33.28	6.37	5.99
Approximate % change in projected service cost	3.1%	-3.0%	3.2%	-3.1%
Post retirement mortality assumption:				
Adjustment to mortality age rating assumption*	**- 1 year**	**+ 1 year**	**-1 year**	**+ 1 year**
Present value of total obligation (£m)	1,568.4	1,478.8	137.7	129.9
% change in present value of total obligation	3.0%	-2.9%	2.9%	-2.95
Projected service cost (£m)	35.51	33.11	6.40	5.97
Approximate % change in projected service cost	3.50%	-3.50%	3.50%	-3.50%

*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

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

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

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

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

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

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

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

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.

Changes in fair value are balanced by an entry in the Available for Sale Reserve and the gain/loss is recognised in the *Surplus or deficit on revaluation of available for sale financial assets*. The exception is where impairment losses have been incurred – these are debited to the *Financing and investment income and expenditure* line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available for Sale Reserve.

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

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

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

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.

b. Nature and extent of risk arising from financial instruments

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

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

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

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

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

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

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

Credit risk: Credit risk arises from deposits with banks, building societies, other local authorities and the government's Debt Management Office[21], 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 all

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

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:

- credit watches and credit outlooks from credit rating agencies
- credit default swap spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

The annual investment strategy also stipulates the maximum amount and time limits in respect of each financial institution.

As at 31 March 2018, £30.000m, or 32.8%, of the Council's deposits (31 March 2017: £16.500m or 24%) were held with financial institutions domiciled outside the UK:

	2016/17		2017/18	
Country of domicile	**Amount £m**	**%**	**Amount £m**	**%**
Singapore	5.000	7.3	10.000	10.9
Canada	5.000	7.3	5.000	5.5
Germany	0.000	0.0	0.000	0.0
Sweden	6.500	9.4	0.000	0.0
Australia	0.000	0.0	15.000	16.4
	16.500	**24.0**	**30.000**	**32.8**

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:

2016/17		2017/18		
Net value £m		**Gross value £m**	**Impairment value £m**	**Net value £m**
68.846	Deposits with financial institutions	91.546	(0.026)	91.520
19.903	Long-term debtors	22.466	0.000	22.466
46.037	Short-term debtors	55.879	(9.408)	46.471

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 £9.408m (excluding council tax and business rates) is held on the Balance Sheet to provide against the risk of default on debt outstanding (£8.223m in 2016/17). In addition, the Council's Balance Sheet at 31 March 2018 held £50.196m (short-term) and £63.568m (long-term) relating to gross amounts owed for financial liabilities (£54.476m short-term and £66.123m long-term in 2016/17), 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. The highest possible rating is AAA and the lowest rating is BBB:

2016/17 £m	Rating	2017/18 £m
37.346	AAA	26.520
6.500	AA	0.000
10.000	AA-	30.000
5.000	A+	15.000
10.000	A	15.000
0.000	A-	5.000
68.846	**Total (excluding impaired investments)**	**91.520**

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

The Council has ready access to borrowing from the money markets to cover any day-to-day cash flow need, and the Public Work Loans Board (PWLB) and money markets for access to longer term funds. The Council is also

required to provide a balanced budget through the Local Government Finance Act 1992[22], 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 2018, all of the Council's deposits were due to mature within 364 days.

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

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

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

Market risk

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

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

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

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

Interest rate sensitivity analysis		
2016/17 £m		**2017/18 £m**
0.200	Increase in interest payable on variable rate borrowing	0.436
(0.159)	Increase in interest receivable on variable rate investments	(0.137)
0.041	**Impact on the (surplus)/deficit**	**0.299**
(0.077)	Decrease in fair value of fixed rate investments	(0.116)
173.855	Decrease in the fair value of fixed rate borrowing	139.719

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

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

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

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

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

c. 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:

2016/17 £000s		2017/18 £000s
(1,667)	Interest and investment income	(1,808)
26,284	Interest payable and similar charges	26,175
24,617	**Total**	**24,367**

d. 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	
	31/3/17 £000s	31/3/18 £000s	31/3/17 £000s	31/3/18 £000s
Financial liabilities at amortised cost	(78,005)	(55,360)	(538,341)	(600,867)
Total borrowing	**(78,005)**	**(55,360)**	**(538,341)**	**(600,867)**
Loans and receivables	69,056	87,311	0	5,000
Available for sale assets:				
Unquoted equity investment	0	0	12,367	12,367
Total investments	**69,056**	**87,311**	**12,367**	**17,367**

Analysis of financial liabilities at amortised cost			
Total outstanding at 31 March 2017 £000s		**Interest rates payable**	**Total outstanding at 31 March 2018 £000s**
	Source of loan		
(495,486)	Public Works Loans Board	2.08% - 13.75%	(530,351)
(120,860)	Other loan instruments	0.23% - 4.52%	(125,876)
(616,346)	**Total financial liabilities at amortised cost**		**(656,227)**
	An analysis of loan by maturity is:		
(78,005)	**Short-term borrowing**		**(55,360)**
(24,474)	Maturing in 1 – 2 years		(40,829)
(118,795)	Maturing in 2 – 5 years		(111,072)
(42,564)	Maturing in 5 – 10 years		(61,458)
(352,508)	Maturing in more than 10 years		(387,508)
(538,341)	**Long-term borrowing**		**(600,867)**
(616,346)	**Total borrowing**		**(656,227)**

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

Financial 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:

- For loans from the PWLB payable, new borrowing rates have been applied to provide the fair value under PWLB debt redemption procedures. As the Debt Management Office provides a transparent approach allowing the exit cost to be calculated without undertaking a repayment or transfer it is appropriate to disclose the exit price. As an alternative, we have assessed the cost of taking a new loan at PWLB new loan rates applicable to existing loans on Balance Sheet date (which could be viewed as a proxy for transfer value);
- For non-PWLB loans payable, PWLB prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;

- No early repayment or impairment is recognised; and
- 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 2018) arising from a commitment to pay interest to lenders above current market rates.

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

Fair value of assets and liabilities carried at amortised cost				
	31 March 2017		31 March 2018	
	Carrying amount £000s	Fair value £000s	Carrying amount £000s	Fair value £000s
PWLB debt	(495,486)	(763,044)	(530,352)	(678,677)
Non-PWLB debt	(120,860)	(230,582)	(125,875)	(182,381)
Total financial liabilities	**(616,346)**	**(993,626)**	**(656,227)**	**(861,058)**
Market loans < 1 year	52,191	51,546	71,194	71,194
Market loans > 1 year	0	0	5,000	4,995
Total financial assets	**52,191**	**51,546**	**76,194**	**76,189**

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 2017/18:				
Fixed-term deposits	71,000	0	194	71,194
Impaired investment	(26)	26	0	0
	70,974	**26**	**194**	**71,194**
Short term deposits (cash equivalents)	16,117	0	0	16,117
Total	**87,091**	**26**	**194**	**87,311**
Short term investments 2016/17:				
Fixed-term deposits	51,500	0	691	52,191
Impaired investment	(26)	26	0	0
	51,474	**26**	**691**	**52,191**
Short term deposits (cash equivalents)	16,865	0	0	16,865
Total	**68,339**	**26**	**691**	**69,056**

27. Authorisation of Accounts for issue

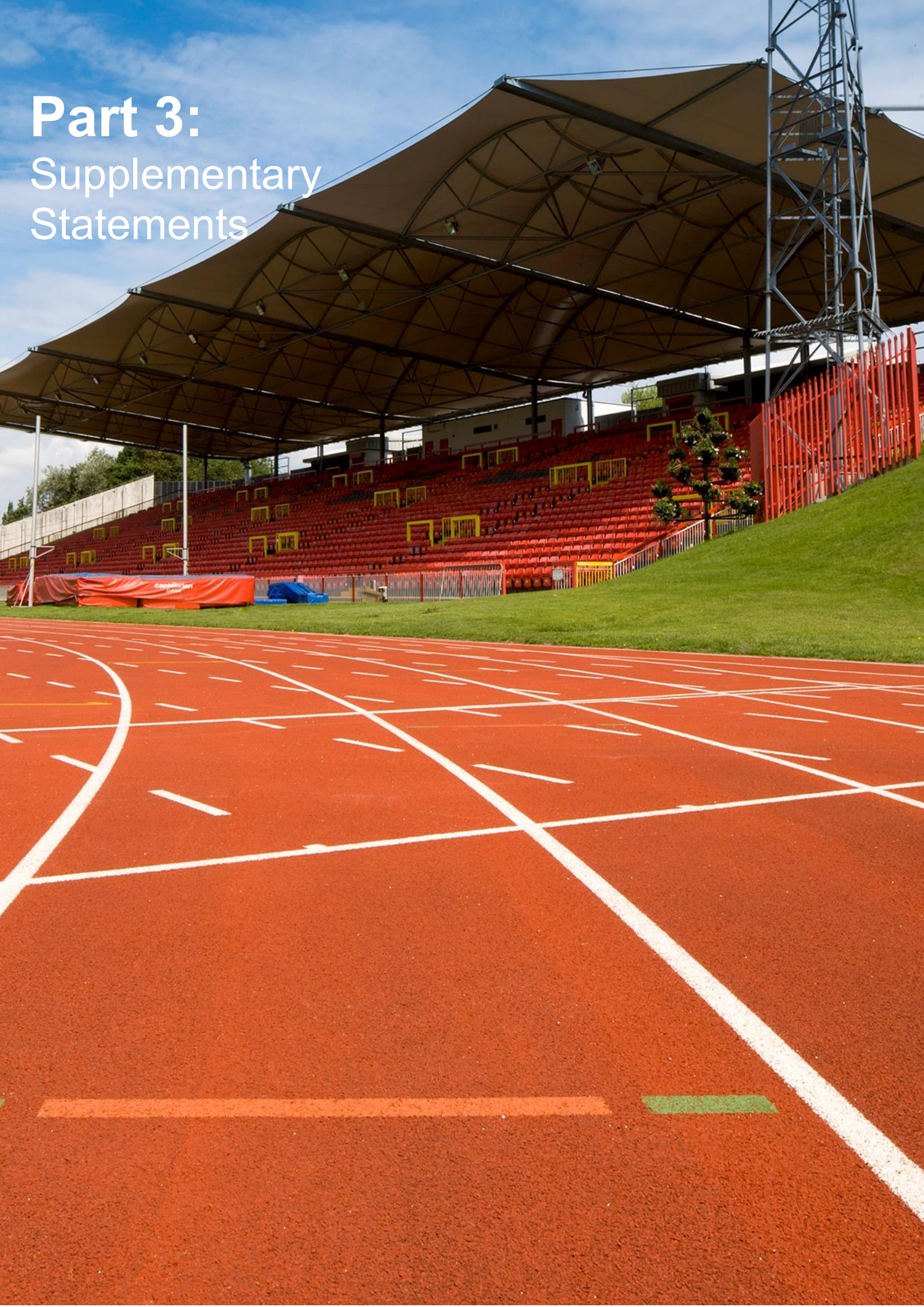
The Council's Statement of Accounts for the financial year ended 31 March 2018 will be approved, once audited, by the Accounts Committee and authorised for issue during 2018.

Signed:

Date:

Darren Collins
Strategic Director, Corporate Resources

Part 3:
Supplementary Statements



Housing Revenue Account (HRA)

HRA Income and Expenditure Statement

2016/17 £000s		2017/18 £000s	Note
	Expenditure:		
17,680	Repairs and maintenance	19,726	
18,064	Supervision and management	14,946	
3,430	Special services	3,423	
3,035	Rents, rates, taxes and other charges	3,550	
(18,140)	Depreciation and revaluation of non-current assets	17,806	4 & 6
341	Debt management charges	69	
662	Increased provision for bad or doubtful debts	570	
25,072		**60,090**	
	Income:		
(76,081)	Dwelling rents (gross)	(74,141)	
(1,403)	Non-dwelling rents (gross)	(1,359)	
(3,471)	Charges for services and facilities	(3,382)	
(316)	Leaseholders charges for services and facilities	(480)	
(936)	Contributions towards expenditure	(887)	
(82,207)		**(80,249)**	
(57,135)	**Net Cost of HRA Services as included in the Council's Comprehensive Income and Expenditure Statement**	**(20,159)**	
575	HRA services' share of Corporate and Democratic Core	575	
(56,560)	**Net Income for HRA Services**	**(19,584)**	
	HRA share of the operating income and expenditure included in the Council's Comprehensive Income and Expenditure Statement:		
(390)	(Gain) or loss on sale of HRA non-current assets	(401)	
15,186	Interest payable and similar charges	14,820	
(191)	HRA Interest received and investment income	(197)	
380	Pension interest cost and expected return on pension assets	80	
0	Capital grants and contributions	0	
(41,575)	**(Surplus)/Deficit for the year on HRA services**	**(5,282)**	

Movement on the HRA Statement

2016/17 £000s		2017/18 £000s	Note
24,109	**Balance on the HRA at 1 April 2017**	**27,359**	
41,575	Surplus / (Deficit) for the year on HRA Income and Expenditure Statement	5,282	
(38,325)	Adjustments between accounting basis and funding basis under regulations	1,313	1
3,250	Net increase before transfers to reserves	6,595	
3,250	**Increase in year on the HRA**	**6,595**	
27,359	**Balance on the HRA at 31 March 2018**	**33,954**	

Notes to the HRA

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

2016/17 £000s		2017/18 £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:	
(32,077)	Downward revaluation of non-current assets	3,817
(390)	(Gain)/loss on sale of HRA non-current assets	(418)
554	HRA share of contributions to or from the pensions reserve	156
(6,399)	Capital expenditure funded by the HRA	(2,345)
(13,937)	Transfer to the Major Repairs Reserve (*see Note 7*)	(13,989)
13,937	Transfer from the Capital Adjustment Account	13,989
0	Other	116
(38,312)		1,326
	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:	
(13)	Amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	(13)
(38,325)	**Total adjustments between accounting basis and funding basis under the legislative framework**	**1,313**

2. Housing stock and Balance Sheet valuation

The number of council dwellings by type and valuation at 31 March 2018 was as follows:

31/03/17	**Lettable stock numbers:**	31/03/18
11,306	Houses	11,143
4,995	Flats	4,972
3,092	Bungalows	3,091
19,393		**19,206**
£000s	Values**:**	**£000s**
720,943	Council dwellings	706,237
6,112	Other land and buildings	6,136
125	Vehicle, plant, furniture and equipment	86
727,180	Total Balance Sheet value of land, houses and other property in the HRA	**712,459**

It should be noted that opening values are presented prior to any revaluations carried out during 2017/18 and taking effect from 1 April 2017.

3. Vacant possession value

The vacant possession value of the HRA dwellings at 1 April 2017 was £1.547bn. However, the existing use value for social housing (EUV-SH) at the same date was £0.71bn. 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:

2016/17 £000s		2017/18 £000s
13,734	Council dwellings	13,787
203	Other land and buildings	163
0	Vehicles, plant, furniture and equipment	39
13,937	**Total**	**13,989**

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:

2016/17 £000s		2017/18 £000s
	Expenditure:	
18,950	Council dwellings	24,986
1,585	Other land and buildings	759
118	Vehicle, plant, furniture and equipment	0
20,653	**Total capital expenditure**	**25,745**
	Funded by:	
(317)	Borrowing	(51)
0	Capital Receipts Reserve	(6,760)
0	Capital grants	(2,600)
(6,399)	Direct revenue financing	(2,345)
(13,937)	Major Repairs Reserve	(13,989)
(20,653)	**Total funding**	**(25,745)**

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 credit to the HRA of £3.817m relating to the reversal of previous losses (2016/17: a charge of £32.077m), as shown below:

2016/17 £000s		2017/18 £000s
	Revaluation losses recognised in the HRA Income & Expenditure Statement:	
(34,373)	Council dwellings	3,369
1,116	Other land and buildings	448
	Impairments recognised in the HRA Income and Expenditure Statement:	
1,180	Council dwellings	0
(32,077)	**Total**	**3,817**

7. Major Repairs Reserve

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

2016/17 £000s		2017/18 £000s
-	**Opening Balance at 1 April**	**0**
13,937	Amounts transferred to MRR during the year:	(13,989)
4,902	Amounts transferred from the MRR during the year	0
(18,839)	Capital expenditure on land, houses & other property	13,989
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*:

2016/17 £000s		2017/18 £000s
	Credit:	
(191)	Interest on notional cash balance	(197)
32,077	Impairments adjustment	(3,817)
31,886		**(4,014)**
	Debit:	
15,186	Interest on loans	14,820
13,937	Depreciation	13,989
341	Debt management expenses	69
(32,077)	Impairment charges	3,817
(2,613)		**32,695**
29,273	**Total item 8 debit**	**28,681**

Collection Fund Statement

2016/17 £000s		2017/18 £000s Business rates	Council tax	TOTAL	Notes
	Income				
(87,870)	Income from council tax	0	(93,295)	(93,295)	2
(92,759)	Income from business rates	(87,015)	0	(87,015)	
-	Reconciliation adjustments	(52)	0	(52)	
(180,629)	**Total income**	**(87,067)**	**(93,295)**	**(180,362)**	
	Expenditure				
	Apportionment of previous year surplus:				
0	Central Government	0	0	0	
11	Gateshead Council	0	2,638	2,638	
1	Tyne and Wear Fire and Rescue Authority	0	131	131	
1	Northumbria Police and Crime Commissioner	0	161	161	
13		**0**	**2,930**	**2,930**	
	Precepts, demands and shares:				
44,354	Central Government	41,440	0	41,440	
121,170	Gateshead Council	41,093	81,829	122,922	
4,729	Tyne and Wear Fire and Rescue Authority	829	3,953	4,782	
4,711	Northumbria Police and Crime Commissioner	0	5,008	5,008	
235	Transitional protection payments payable	3,835	0	3,835	
175,199		**87,197**	**90,790**	**177,987**	
	Less charges to Collection Fund:				
3,853	Write-off of uncollectable amounts	1,173	427	1,600	
-	Increase / decrease in bad debt provision	(1,665)	0	(1,665)	
-	Increase / decrease in provision for appeals	1,665	0	1,665	
293	Cost of collection	285	0	285	
-	Reconciliation adjustments	0	0	0	
4,146		**1,458**	**427**	**1,885**	
(1,271)	**(Surplus)/deficit arising during the year**	**1,588**	**852**	**2,440**	
4,656	**(Surplus)/deficit brought forward 1 April**	**7,749**	**(4,364)**	**3,385**	
3,385	**(Surplus)/deficit carried forward 31 March**	**9,337**	**(3,512)**	**5,825**	
	Attributable to:				
3,875	Central Government	4,669	0	4,669	
(132)	Gateshead Council	4,575	(3,147)	1,428	
(118)	Tyne and Wear Fire and Rescue Authority	93	(146)	(53)	
(240)	Northumbria Police and Crime Commissioner	0	(219)	(219)	
3,385		**9,337**	**(3,512)**	**5,825**	

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).

2016/17		2017/18
49.7p	Rate in the pound	47.9p
£221.132m	Total non-domestic rateable value	£220.025m

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	
		2016/17	2017/18	2016/17	2017/18
Band A - Up to £40,000 (disabled reductions)	5/9	93	89	52	49
Band A - Up to £40,000	6/9	34,308	34,582	22,872	23,055
Band B - £40,001 to £52,000	7/9	10,000	10,102	7,778	7,857
Band C - £52,001 to £68,000	8/9	13,062	13,195	11,611	11,729
Band D - £68,001 to £88,000	9/9	5,078	5,099	5,078	5,099
Band E - £88,001 to £120,000	11/9	2,064	2,099	2,523	2,566
Band F - £120,001 to £160,000	13/9	756	762	1,092	1,101
Band G - £160,001 to £320,000	15/9	365	369	608	615
Band H - Over £320,000	18/9	14	17	28	34
		65,740	**66,314**	**51,642**	**52,105**

	2016/17	2017/18
Council tax for a band D property	£1,699.47	£1,782.36

Part 4:
Accompanying documents

Annual Governance Statement 2017/18

Approved by Audit and Standards Committee on 18 June 2018

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[23].

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 Council's new 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 2018 and approval of the Statement of Accounts 2017/18.

The Governance Framework

The Council continually reviews and improves its Governance Framework and during 2017/18, it has been updated to take account of the following:

- Review of Local Code of Governance;
- Review of Corporate Counter Fraud and Corruption Arrangements;
- Policy on Criminal Offence of Tax Evasion;
- Implementation of GDPR;
- New Strategic Approach agreed, Making Gateshead a Place Where Everyone Thrives; and
- Employee Disability Survey 2017.

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 2020, so the Council needs to ensure it can adapt with pace and purpose to continue to provide the best possible services to its residents.

Organisational Structures

The Council's functions are delivered through the following service groups:

- Office of the Chief Executive
- Care, Wellbeing and Learning
- Communities and Environment
- Corporate Services and Governance
- Corporate Resource

[23] www.gateshead.gov.uk/Council%20and%20Democracy/About-the-Council/policies/governance.aspx

The Gateshead Housing Company, the Council's arms length management organisation, are 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 Audit 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.

A clear statement of the purpose and vision for Gateshead is set out in the Sustainable Community Strategy, Vision 2030, owned by the Gateshead Strategic Partnership and published on the Council's website. The Council's objectives are set out in the Council Plan 2015-2020, (to be replaced in 2018/19 with a new strategic approach, Making Gateshead a Place Where Everyone Thrives) which provides a framework to demonstrate how the Council will work and make decisions in the future which will be policy and priority led. These are translated into more specific aims and objectives in the business plans which each Council service prepares annually. The achievement of these objectives is monitored by individual services and at a strategic level by the Cabinet and Overview and Scrutiny Committees.

The Council has a corporate performance management framework through which quality of service is measured via strategic outcome indicators. The Council's Corporate Management Team are leading on performance management with the development of a new balanced scorecard for the Council, which will be scrutinised every two months. Performance is also monitored by Group and Service management teams and 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. The Council has a performance management IT system which brings together performance indicators, action and financial information to provide real time reporting.

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

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

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

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

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

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

ensure the lawfulness and fairness of decision-making. This includes acting as the Council's Senior Information Risk Owner with overall responsibility for the Council's Information Governance procedures.

The Council maintains an independent Internal Audit Service. The Internal Audit Service is required to objectively examine, evaluate and report upon the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of the Council's resources. This is achieved through the delivery of a risk based annual audit plan which is agreed by the Audit and Standards Committee and monitored on a quarterly basis. The Chief Internal Auditor also prepares an annual report based on the work of the Internal Audit Service which provides an independent and objective opinion on the Council's control environment based on the work undertaken by the Service throughout the year. During 2014/15, the Internal Audit Services was externally assessed for compliance with Public Sector Internal Audit Standards. The outcome of the assessment was that the service is substantially compliant and identified no areas of concern that the Internal Audit Service is unable to form a judgement as to the proper and effective working of the Council's system of internal control. There were some minor areas for improvement which were not considered material to impact on the overall scope of operation of the Service and were actioned in 2015/16. The results of the assessment were reported to the Audit and Standards Committee on 26 January 2015.

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 Strategic Partnership, the Local Safeguarding Children 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.

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 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, Corporate Resources 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 29 January 2018. Assurance was sought from Councillors who serviced in the Cabinet during 2017/18, 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 18 June 2018 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 18 June 2018 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, Corporate Resources, 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 18 June 2018. This included an assessment of compliance with the CIPFA Statement on the Role of the Head of Internal Audit (2010) and compliance with Public Sector Internal Audit Standards. This 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 18 June 2018. This opinion is based on 63 audit reviews undertaken during the year which found all systems reviewed to be operating well or satisfactorily, except in seven 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 2017/18 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 2017/18, the opinion of the Chief Internal Auditor reported to the Housing Company's Audit Committee 4 July 2018 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 Audit Committee on 4 July 2018.

The Annual Risk Management Report was presented to the Audit and Standards Committee on 18 June 2018 which concluded that risk management arrangements are effective.

Regular reports on performance management information and data quality have been considered by Overview and Scrutiny Committees and Cabinet over the course of the year 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.

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 2017/18.

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

Service Directors review partnerships within their business plans on an annual basis. As partners are key to the delivery of the Council's objectives, assurance of their control and governance systems is required. 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 satisfactory.

Actions taken to improve governance following previous Annual Governance Statement

Governance Issue	Planned Action	Action Taken	Outstanding Matters
Strengthen Council approach to managing the risk of Fraud and Corruption.	Review the Council's Fraud and Corruption Policy. Develop an appropriate counter fraud and corruption strategy to mitigate the identified risks of fraud and corruption. Provide resources to implement the strategy. Take action in response to fraud and corruption.	Overall Counter Fraud and Corruption Arrangements, including a revised Counter Fraud and Corruption Policy and Fraud Response Plan, and a first Counter Fraud and Corruption Strategy, were agreed by the Council in March 2018. Communication strategy drafted to embed the Counter Fraud culture with stakeholders. Two dedicated Corporate Fraud Officers appointed and trained.	Delivery of Communication Strategy and strengthen with awareness training where beneficial.
CIPFA issued new guidance in April 2016, Delivering Good Governance in Local Government: Framework	A fundamental review and redraft of the Councils' Local Code of Governance to get the best value from the CIPFA Guidance.	A new code was developed by reference to the CIPFA Guidance, following workshop sessions with the Council's Leadership Team and Councillors to ensure buy in to the updated Code. This was then approved by the Audit and Standards Committee.	None.

Action Plan for 2018/19

Governance Issue	Planned Action	Responsible Officer
Strengthen Council approach to managing the risk of Fraud and Corruption	Delivery of Counter Fraud Communication Strategy and strengthen with awareness training where beneficial. Develop Fraud Management System.	Strategic Director, Corporate Resources
Reviewing Governance arrangements to maximise support for Making Gateshead a Place Where Everyone Thrives.	Review of Performance Management Framework in line with the new Thrive agenda.	Service Director, Policy, Performance and Communication
Ensure the Risk Management Strategy continues to contribute to the delivery of the Council's Strategic objectives.	Review and develop risk management arrangements to consider risk appetite and support for Making Gateshead a Place Where Everyone Thrives.	Strategic Director, Corporate Resources

Opinion on Governance Arrangements

Based on the review of the Council's governance arrangements during 2017/18, 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.

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 18 June 2018 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: 28/6/18

Signed:

Sheena Ramsey

Chief Executive

Dated: 28/6/18

Independent Auditor's Report

to the Members of Gateshead Council

Opinion on the financial statements

We have audited the financial statements of Gateshead Council (the Council) and Group for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the Council and Group Movement in Reserves Statements, the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Balance Sheets, the Council and Group Cash Flow Statements, the Housing Revenue Account, the Collection Fund, and notes to the financial statements, including the 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Council and Group as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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.

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, Corporate Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Strategic Director, Corporate Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council'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, Corporate Resources is responsible for the other information. The other information comprises the 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, Corporate Resources for the financial statements

As explained more fully in the Statement of the Strategic Director, Corporate Resources Responsibilities, the Strategic Director, Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view. The Strategic Director, Corporate Resources is also responsible for such internal control as the Strategic Director, Corporate Resources 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, Corporate Resources is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 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, Corporate Resources is responsible for assessing each year whether or not it is appropriate for the Council 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 Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Conclusion on the 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 November 2017, we are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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 November 2017, 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 2018.

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.

Auditor's responsibilities in relation to 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 issued by the Comptroller and Auditor General 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.

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.

Use of the audit report
This report is made solely to the members of the Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 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 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.

Certificate
We certify that we have completed the audit of the financial statements of the Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Cameron Waddell

Partner

For and on behalf of Mazars LLP
Salvus House,
Aykley Heads,
Durham,
DH1 5TS

Date:

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 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 2016/17 council tax bill in 2015/16).

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 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[24].

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

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

project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period.

Major Repairs 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.

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.

Vision 2030 is Gateshead's Sustainable Community Strategy which sets out the following ambitious and aspirational vision for Gateshead:

> "Local people realising their full potential, enjoying the best quality of life in a healthy, equal, safe, prosperous and sustainable Gateshead."

It reflects the views of thousands of people and is informed by evidence gathered from Gateshead, giving a picture of the quality of life and services across the Borough.

Contacts

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Chief Financial Officer:	**Darren Collins**
Leader of the Council:	**Councillor Martin Gannon**
Audit and Standards Committee Chair:	**Councillor Helen Haran**

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

Gateshead Council's Statement of Accounts was produced by:

Corporate Resources
Gateshead Council
Civic Centre
Regent Street
Gateshead NE8 1HH

The Council's Statement of Accounts is audited by:

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