Gateshead Council

STATEMENT OF ACCOUNTS 2020/21

SINGLE ENTITY AND CONSOLIDATED

Audited

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Leader's Foreword

by Councillor Martin Gannon
Leader of the Council

I am pleased to introduce the Council's annual Statement of Accounts for 2020/21 which reflects the Council's financial position. Guided by our *Thrive* agenda we continue to place people and families at the heart of all that we do as we strive to deliver person-centred services to residents in the borough. Underpinned by our *Health and Wellbeing Strategy*, our ultimate goal is to address the inequality gap within Gateshead and create the conditions to enable everyone to *Thrive*.

The impact of the COVID-19 pandemic in 2020/21 has exacerbated the well-known inequality gap within the borough and will have a significant and long-lasting impact on a high proportion of our residents and will shape the future delivery of services to support them. As stated in last year's accounts we will need to continue to consider how the Council remains financially resilient and sustainable, in what are very uncertain times for our borough and the country.

Our COVID-19 response has demonstrated that it is impossible to untangle our community's health from the economy. Whilst the long-term impact of COVID-19 on Gateshead and economy remains unknown, the reality is that our entire population has felt some sort of loss through the pandemic. It is also apparent how fragile some of our communities are.

I am immensely proud of our local response to the pandemic and incredibly grateful to be working in a place that has strived tirelessly to do the right thing. It hasn't just been the Council involved in the response either – immense credit must go to the health, police, fire, local business, schools, our community and voluntary sector, and not forgetting our residents, who have all stepped up to the challenges COVID has brought.

The Council in 2020/21 continued to play an active role in the overall national response to COVID-19, including the administration of business rate reliefs and grants, supporting households through the council tax reduction scheme, supporting the care sector, providing support to vulnerable residents, and enabling much of our workforce to work remotely in order to maintain essential services. Our focus throughout has been to provide support to those who have needed us most.

The Council's Medium Term Financial Strategy (MTFS) to 2025/26 presents an extremely challenging financial position over the medium-term and identified an estimated funding gap of £58.4m over the five-year period with £16.9m in 2022/23. The impacts of the pandemic on demand, costs and income will be long lasting and will likely increase the challenge to the medium to long term financial sustainability of the Council. Despite these challenges, the Council continues to invest in the assets of the borough with planned capital expenditure forecast to be £398m over the five years to 2025/26. This will encourage economic and housing growth which will bring about new jobs, new homes and increase the skills of local people. This growth is essential to the wellbeing of the borough and its residents and to provide the council with the means other than service cuts to maintain a sustainable financial position.

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

We remain confident that we can continue to steer the Council through the challenging times ahead. We will need to work with our partners to steer a way forward and create the right conditions for local people to *Thrive*.

We will also need to consider what has worked well during this period, such as our locality working, and align our future service delivery to this – retaining our commitment to providing support to our local communities and the most vulnerable in the borough.

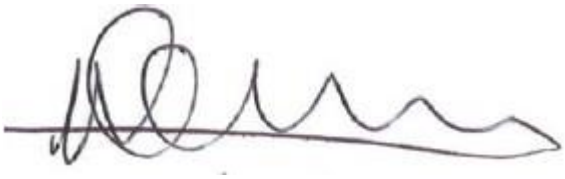
If there is one positive to take from the pandemic, it is that I know that Gateshead has the capacity to move forward into recovery with the same resilience and strength that I have observed during the height of the pandemic.

A clear focus for our recovery will be creating conditions to improve the health and well-being of all our residents. During this period, we will also need to make bold decisions, so our resources are focussed towards creating a fairer Gateshead.

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

Councillor Martin Gannon

Leader of Gateshead Council



Part 1: Narrative Statement and Statement of Responsibilities

Narrative Statement

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 2020/21, 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 Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code), developed by the CIPFA/LASAAC Board and approved by FRAB, and is based on EU-adopted IFRS. The Code constitutes proper accounting practice.

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

Governance

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework. Further information is available in the Annual Governance Statement (p87-93) which was approved by the Audit and Standards Committee on 21 June 2021. 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

Following consultation with our residents, stakeholders, councilors and officers on "what matters most" we agreed our Thrive agenda and its five pledges. These pledges are more important now than ever:

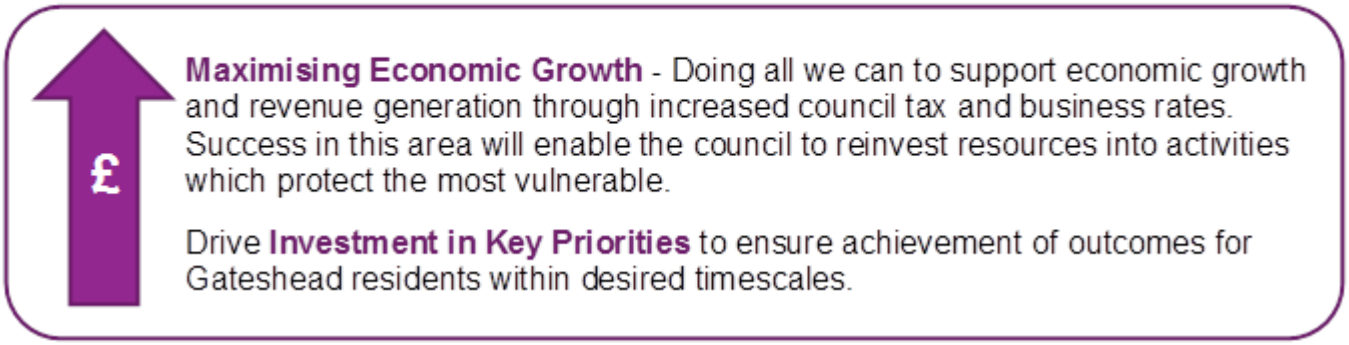
- Putting people and families at the heart of everything we do;
- Tacking inequality;
- Supporting our communities to support themselves and each other;
- Investing in our economy to provide sustainable opportunities for employment, innovation and growth; and
- Work together and fight for a better future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

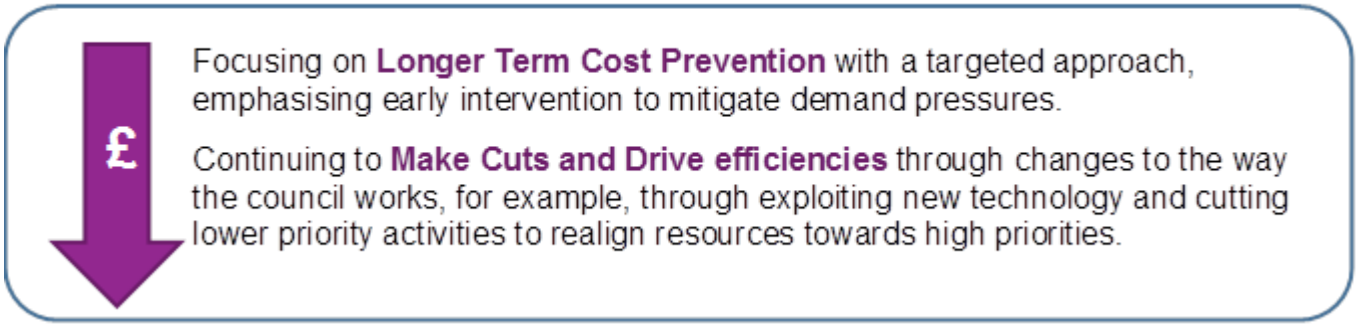
The Council, like all local authorities, continues to operate in an ever-changing policy landscape, both nationally and regionally. Councils have a unique knowledge and understanding of place and a shared focus on the wellbeing of our communities. We 'get the job done' – doing so with a unifying purpose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

Our approach

The Council's Medium-Term Financial Strategy (MTFS) is based on a financial forecast over a rolling five-year timeframe from 2021/22 to 2025/26. The MTFS sets the financial context for the Council's resource allocation process and budget setting.

Over the five-year period there is an estimated funding gap of £58m. Within this financial context the budget process has been built upon council wide working to deliver a sustainable long-term financial position:





MTFS executive summary

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

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

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

The Council will review its MTFS and strategic objectives in recognition of the impact of the pandemic. The crisis has meant that the Council has had to review its business critical activities alongside a structural review of Revenue and Capital budgets during 2020/21.

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

COVID-19 Response

➢ Supporting Businesses and Individuals

- The Council has been instrumental in facilitating the payment of grants to support both businesses and individuals during the pandemic.
- Following the outbreak of COVID-19 our usual approach to recovery was suspended during 2020-21. The impact of the pandemic on both residents and businesses meant that a more cautious and supportive approach was needed.
- The main focus of the business rates team became the payment of business grants in order to protect jobs and support our local economy; more than £74 million in grants has now been paid to businesses across Gateshead.

- The Council's Local Council Tax Support Scheme means that approximately 12,300 council taxpayers will continue to pay no more than 8.5% of their council tax bill. Council Tax Hardship Funding has been allocated to 16,610 accounts in receipt of council tax support, with over 10,000 claimants liability reduced to nil.
- There was also an increase in the number of tenants claiming Universal Credit from 4,655 to 5,733. 1,758 new Universal Credit claims had been made by council tenants since the first lockdown (although some were short-term).
- The work of the Rent and Income team in providing advice, support and working in partnership has resulted in financial gains for tenants and their families of over £1.5 million. There were over 100,000 contacts with tenants to offer help and advice during the year.
- Since the 23 March 2020, the Council has been providing emergency food parcels to residents requesting help through the #StaySafe arrangements and supporting key community partners with food provision.
- To date over 15,500 food parcels have been delivered to residents across Gateshead.
- Whilst the Council had seen demand increase significantly at the start of lockdowns, overall demand for help with food has reduced from 600 parcels per week at its peak to approximately 200 parcels per week, which are distributed to residents' doorsteps.
- In August 2020, the Council took the decision to continue the emergency food parcels and financial support to our community partners providing food as it felt appropriate to continue to recognise the needs of local people experiencing COVID enforced difficulty and hardship.
- In addition to the emergency food issued by community hubs, there are several local organisations who continue to support vulnerable Gateshead households with emergency food, of which the Council is currently purchasing additional amounts to supply those partners and allow that support to continue.

➢ Service response

During the course of the pandemic we have also sustained, altered and tailored the ways in which we operate and deliver local services to residents, including:

- Waste collection – despite the challenges of lockdown and COVID-19, we continued to collect over 100,000 household waste and recycling bins every week throughout the pandemic
- All schools remained open throughout the pandemic for key worker and vulnerable children, including during the school holidays. Our teachers have made great efforts to provide online learning for children of all ages and free school meals have been provided for any child that needed one.
- Our library service started making Personal Protective Equipment (PPE) using a laser cutter and 3D printers in April, and with the support of community volunteers, delivered more than 7,000 visors to over 60 care facilities. The libraries supply contributed to the many thousands of PPE that were made by businesses and volunteers in Gateshead over the last few months.
- Local children have been helped to occupy their time during the lockdown, thanks to the support of a number of different organisations throughout Gateshead. More than 450 activity packs were sent out to families identified as being most in need. Packs contained art materials, books, games and activities to help keep children and young people active and busy. It's been a group effort with both the Council and its partners lending a hand
- Upgrade to the Council Website - a major upgrade to the Council's website is set to give the public much more control over the services they receive. A new series of features will make contacting the Council easier, more convenient and more efficient after a number of trials proved their popularity. The COVID-19 pandemic saw a huge shift in the public's willingness to move online, with daily page views of the Council website increasing by more than a third during that time. The new digital services build on the public's growing expectation to interact with the Council via the internet.
- Brighten the Day - the Council was once again awarded Government funding to provide free summer holiday activities and healthy food for Gateshead families. £228,598 was secured from the Department for Education to run the seven-week long holiday activities and food programme called #BrightentheDay. Throughout the programme:
    - schools participated providing a range of sports, environmental and social activities
    - six pop-up sports venues were organised (including a healthy lunch)
    - more than 20 community venues offered a range of activities for families, including trips to venues such as the Centre for Life and Beamish
    - nearly 6,000 healthy packed lunches were delivered to children and families at 23 venues by the Council's catering team
    - more than 1650 healthy breakfasts where delivered to children.

- Our community hubs have been a lifeline to many residents over the last 12 months. A year on, the eight hubs are still operating and are at the heart of the ongoing community support to the pandemic. Staffed by council employees and key partners, the hubs initially focussed on providing emergency food parcels, help with routine shopping, collection of prescriptions or other medical supplies and support if people wanted to talk. Over time, the number of residents requesting help on a regular basis has decreased but the hubs are still supporting 200 households who seek help regularly: Below is just a small summary of the help provided over the last year.
  - wrote to over 36,000 and called 27,000 residents to check they were okay
  - spoke to 11,000 residents classed as being clinically extremely vulnerable
  - made up, distributed and delivered over 14,930 food parcels
  - responded to over 8,500 requests for help
  - supplied 1,400 'cook n' eat' boxes and school meal packed lunch parcels plus over 6,200 school meal vouchers at February half term
  - issued over 4,300 pre-pay cards to households with children on free school meals
  - provided 865 Christmas hampers
  - delivered 50+ oxygen monitors to residents suffering from COVID-19

Achievements in 2020/21 and beyond

Despite the impact that the pandemic, the Council has achieved successes in a number of areas and continued to deliver for residents of Gateshead:

➢ NewcastleGateshead Quays

Gateshead Council's planning committee has approved plans for the development of a £260m events destination which will see the creation of around 1,000 new jobs and boost the local economy by £60m. The plans, which include an arena, exhibition and conference centre, hotels, and new public spaces on Gateshead Quayside is due to open in 2024.

➢ Housing Review

On 1 April 2021, Gateshead Council took on the direct management and maintenance of its housing stock, closing down its former managing agent, The Gateshead Housing Company. The decision was in response to an extensive review of housing services, which was followed by a survey of all tenants and leaseholders, with an overwhelming 95% of respondents in favour of the move.

Now all housing in Gateshead, including ownership and private renting, is looked after by one team. Joining up these services will allow us to provide better customer service and operate more efficiently. This is just the first step of a transformation that will bring real improvements for all residents.

➢ Lighthouse lab

The NHS Integrated COVID Hub North East created 1,000 jobs in Gateshead in December 2020. The Lighthouse Lab based in Gateshead processes tens of thousands of coronavirus tests per day.

➢ APSE Awards

Gateshead School Catering has been named as the UK's best performer in education catering, for the fifth successive time, by the Association of Public Service Excellence (APSE). The Council had two other award winners in the APSE awards - Sports and Leisure Facility Management were named Most Improved Performer for Birtley Leisure Centre and Street Cleansing were named Most Improved Performer in their category. The APSE Performance Networks uses performance data to measure and benchmark services against other similar local authority services throughout the UK, and the winner is the local council that has proved to be delivering the best quality, cost and productivity.

➢ Chopwell Pumptrack

Chopwell pumptrack, a cycling track that can be ridden on just about any kind of bike, skateboard, roller blade or scooter is proving a massive hit with young local people and cyclists from other parts of the region. Built by Velosolutions, one of the world leaders in track design and construction, the 235m track is one of the first tracks in the UK to be rotationally symmetrical, which means two riders can race the same track head-to-head by setting off in opposite directions.

➢ Gateshead Youth Assembly

The Assembly continues to be the voice for Young People in Gateshead and works on priority areas and issues identified by the Assembly and their peers.

➢ Armed Forces Covenant

Gateshead Council has re-signed its pledge to support serving and former members of the armed services. The Leader of Gateshead Council signed a new armed forces covenant setting out Gateshead's commitments to past and serving members of the armed forces and their families. The original Armed Forces Covenant, of which Gateshead Council was one of the UK's first signatories, is a promise between the nation, government and the Armed Forces to treat serving personnel, veterans and their families with fairness and respect and ensure they are not disadvantaged as a result of their service.

➢ Gibside School

Construction of a new school on land at Shipcote Lane, next to Shipley Art Gallery, is now complete. The new build Gibside School was brought forward in response to the increasing need for specialist education school places in the Borough, giving the Council the opportunity to provide the children with the most up-to-date, high quality facilities possible.

The bespoke one-storey building has been designed around the needs of the children aged three to eleven and all 21 classrooms will open out onto their own external play areas. The new school facilities will enhance the learning experiences for current and future pupils and staff. The new building will not only bring together all of the pupils and staff onto one site; the state-of-the-art facilities will bring advantages and benefits to Gateshead's most vulnerable children and ensure that they continue to get an outstanding start in education.

➢ LearningSkills

Adult learners and apprentices in Gateshead are benefiting from a very good service from learning and skills tutors who are committed to improving the lives of the people of Gateshead, according to an Ofsted report. An inspection across Gateshead Council's LearningSkills service took place in 2020 which looked at adult education including provision for people with learning difficulties and/ or disabilities; study programmes and traineeships as well as apprenticeships for young people.

➢ Census 2021

The Office for National Statistics (ONS), who run the census in England and Wales, have place on record their thanks to everyone at Gateshead Council for its contribution to its success. The response to Census 2021 has exceeded all expectations with households across England and Wales responding in great number.

Looking Forward

➢ Climate Emergency Action Plan

An 'environmental roadmap' setting out how Gateshead can become carbon-neutral by 2030 has been adopted by Gateshead Council. The Council has adopted a Climate Change Action Plan which commits the organisation to a series of measures to drastically reduce its carbon emissions. The plan will ensure that all of the Council's major decisions, its budgets and its approaches to planning decisions will be considered in line with the Council's determination to shift to zero carbon use by 2030.

Other positive work includes: -

- Gateshead's award-winning district energy network could soon be incorporating green heat into its network – by tapping into heat stored in abandoned mine workings beneath Gateshead town centre. Gateshead Council has been granted £5.9 million of funding to install a 6MW mine water heat pump to extract heat stored in abandoned and flooded mines

Plans have been agreed to triple the amount of solar energy generated by Gateshead Council – including building two urban solar farms. The Council has agreed a 4.5MW programme of solar photo-voltaic (PV) installations both to new and existing buildings and sites linked to the Gateshead District Energy Network to reduce its reliance on energy generated from fossil fuels and help to combat climate change. The proposals include creating two urban solar farms capable of generating 4MW of clean energy – one on an unused site on the Baltic Quarter, and a second on vacant land next to Gateshead International Stadium

➢ International Athletics

International Athletics has returned to Gateshead in 2021. Gateshead staged the opening of the Diamond League series on Sunday 23 May at the International Stadium, with athletes from around the world competing to a sell-out, socially distanced crowd of 2500 spectators. UK Athletics have also confirmed that the Muller British Grand Prix was staged in Gateshead on 13 July 2021 and will once again bring together the world's leading international athletes ahead of the Olympics. Gateshead Council has responded quickly to both requests to host such significant events within a short planning period demonstrating it's can do approach. International athletics provides not only a fantastic opportunity to showcase Gateshead, but also supports our post-pandemic regional economic recovery plans.

➢ European Athletics Championships in 2026

NewcastleGateshead are the UK's preferred host city for the European Athletics Championships in 2026. This joint bid is being led by Gateshead, Newcastle City Council and the Great Run Company.

➢ Tour of Britain 2021

Gateshead will return to the Tour of Britain cycling route in 2021, hosting the finish of Stage Six on Friday 10 September 2021.

➢ Gateshead Awards 2021

The Gateshead Awards - presented annually by the Mayor of Gateshead - celebrate all those who, in whatever way, have made a real difference to the lives of others in the borough. Following the postponement of the Awards in 2020, they returned in June 2021.

➢ Holiday Activities and Food programme

In November 2020, the Government announced that the Holiday Activities and Food programme, which has provided healthy food and enriching activities to disadvantaged children since 2018, and which Gateshead has been fortunate to be a part of for the last 2 years, is to be expanded across the whole of England in 2021. The programme covers Easter, Summer, and Christmas holidays in 2021 and aims to make free places available at holiday clubs for children who receive means tested free school meal benefit, although in Gateshead, previous programmes have always been accessible to all children.

➢ North East Joint Transport Plan

The North East Transport Plan was formally approved by the North East Joint Transport Committee at its March 2021 meeting, meaning our region now has a central transport strategy in place which takes us up to 2035. The Transport Plan aims to deliver a green transport revolution for our region. It brings to life our sustainable transport ambitions and includes a live programme of 243 schemes which equal at least £6.8bn of transport investment – a figure which will grow over the lifespan of the Plan. The Plan aims to create a transport network which:

- Is carbon neutral;
- Tackles inequality and supports economic growth;
- Promotes a healthier North East;
- Provides attractive sustainable transport choices; and
- Is safe and secure.

➢ Amazon in Gateshead

Amazon UK has announced that it will create over 1000 new jobs in Gateshead at its new fulfilment centre. The new roles are part of an announcement by the Company of more than 10,000 new permanent jobs in the UK during 2021.

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

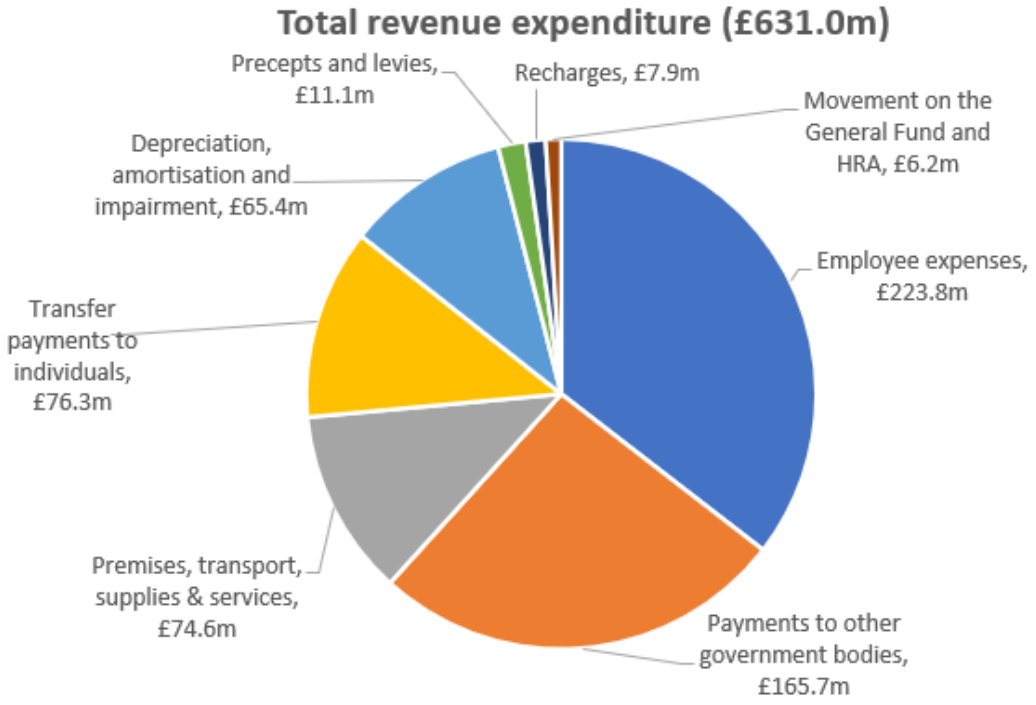
Capital: relates to assets which have a useful life in excess of one year, financed by capital receipts, borrowing, grants or other contributions

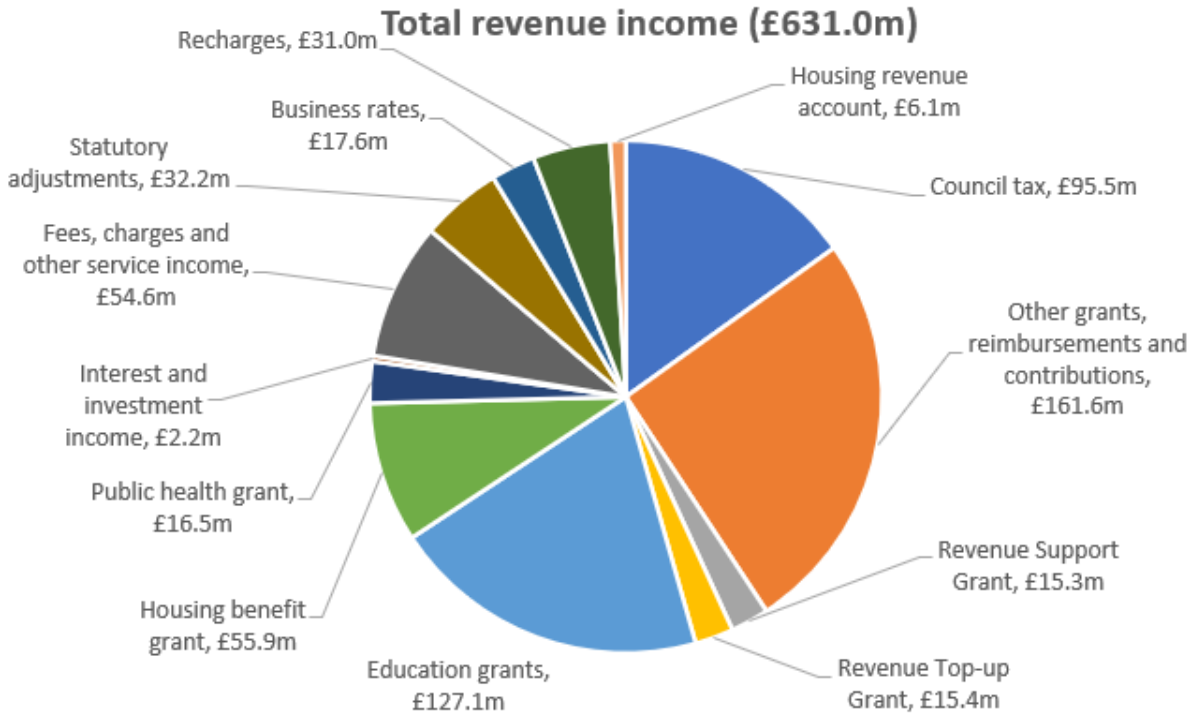
The following sections discuss the Council's revenue and capital income and expenditure during 2020/21; note that the information below presents the Council's position only, rather than that of the group, as the wider group position is of lesser relevance to local taxpayers and other interested parties.

Revenue Income and Expenditure Summary

This section offers a summary of the income and expenditure presented within the Movement in Reserves Statement (page 22), the Comprehensive Income and Expenditure Statement (page 23) and the Housing Revenue Account (HRA) statement (page 80). The information reconciles to the net movement in the General Fund, which includes the General Reserve and Local Management of Schools (LMS) reserve, and HRA reserves.

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





Position against Revenue Budget

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

The key outcomes for the year are as follows:

- Council agreed the original revenue budget for 2020/21 on 27 February 2020. This was set at £220.761m. This is expected to be revised by Cabinet on 20 July to £221.286m
- The actual net expenditure before financing, following a movement in earmarked reserves of £2.802m was £213.824m. The Council also budgeted for the use of £3.031m earmarked reserves and received additional funding of £0.466m resulting in an overall council surplus of £7.908m.
- There was a £10.398m transfer to reserves related to the receipt of the COVID-19 grant funding during 2020/21 which is to be carried forward and used to fund expenditure incurred in 2021/22.
- Following a strategic review of reserves and subsequent transfers to newly created reserves, the Council's General Fund balance increased by £2.908m to £13.967m. This equates to 6% of the 2021/22 net revenue budget. Changes to reserves are set out in note 6b.
- As a result of outturn earmarked reserves increased by £43.391m to £87.829m. This position includes a one off transfer to reserves of section 31 grants relating to the collection fund deficit and will be used to support the financing of the 2021/22 budget as per government guidance.
- There was an increase in the ringfenced LMS Reserve (schools) of £3.433m to £8.912m.

Further details can be found in the Council's Revenue Outturn which was reported to Cabinet on 20 July 2021. The following shows the Council's spend against Budget for 2020/21[2]:

	Revised Budget £000's	Outturn Before Reserves £'000s	Use of Reserves £000's	Outturn £000's	Budget Variance £000's
Children, Adults and Families	112,348	108,958	(31)	108,927	(3,421)
Public Health and Wellbeing	20,393	20,657	221	20,878	485
Housing, Environment & Healthy Communities	21,071	19,192	632	19,824	(1,247)
Economy, Innovation and Growth	587	2,505	227	2,732	2,145
Office of the Chief Executive	1,007	950	56	1,006	(1)
Corporate Services & Governance	5,294	5,066	89	5,155	(139)
Resources and Digital	9,656	5,891	(125)	5,766	(3,890)
Net service expenditure	**170,356**	**163,219**	**1,069**	**164,288**	**(6,068)**
Other Services & Contingencies	11,565	8,674	1,733	10,407	(1,158)
Capital Financing Costs	33,700	32,517	0	32,517	(1,183)
Traded & Investment Income	(3,566)	(2,771)	0	(2,771)	795
Expenditure passed outside General Fund	(1,855)	(1,698)	0	(1,698)	157
Levies	11,086	11,081	0	11,081	(5)
Net spend before financing	**221,286**	**211,022**	**2,802**	**213,824**	**(7,462)**
Settlement Funding Assessment (SFA)	(73,792)	(73,546)	0	(73,546)	246
Other Grants	(30,632)	(30,632)	0	(30,632)	0
Public Health	(16,541)	(16,541)	0	(16,541)	0
Council Tax	(95,671)	(95,671)	0	(95,671)	0
Collection Fund (Council Tax)	(1,620)	(1,620)	0	(1,620)	0
Earmarked Reserves	(3,030)	0	(3,030)	(3,030)	0
COVID Funding	0	(11,090)	10,398	(692)	(692)
COVD Funding – in support of Collection Fund deficit	0	(28,239)	28,239	0	0
Financing	**(221,286)**	**(257,339)**	**35,607**	**(221,732)**	**(446)**
Total Net (under) / over spend		**(46,317)**	**38,409**	**(7,908)**	**(7,908)**
General Reserve – opening balance				**11,058**	
2020/21 underspend				7,908	
Strategic Review Adjustment				(5,000)	
General Reserve – closing balance				**13,967**	

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

[2] Note that this excludes schools and HRA

Capital income and expenditure summary

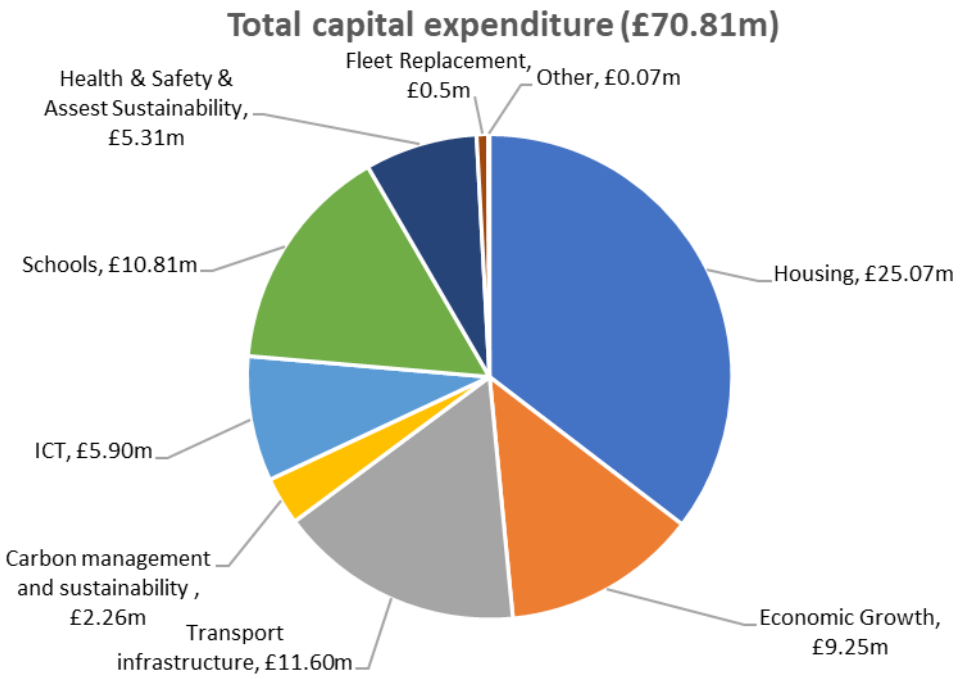
In 2020/21, the Council spent £70.81m on capital schemes (2019/20: £79.5m), with capital investment focused on the delivery of Council priorities. A number of schemes were supported during the year, with particular emphasis on housing, economic growth, energy efficiency and sustainability projects.

Actual capital expenditure for the year on the Council's non-current assets totaled £63.0m (2019/20: £67.7m). This expenditure was invested in the purchase and improvement of the Council's assets such as housing, schools and transport infrastructure.

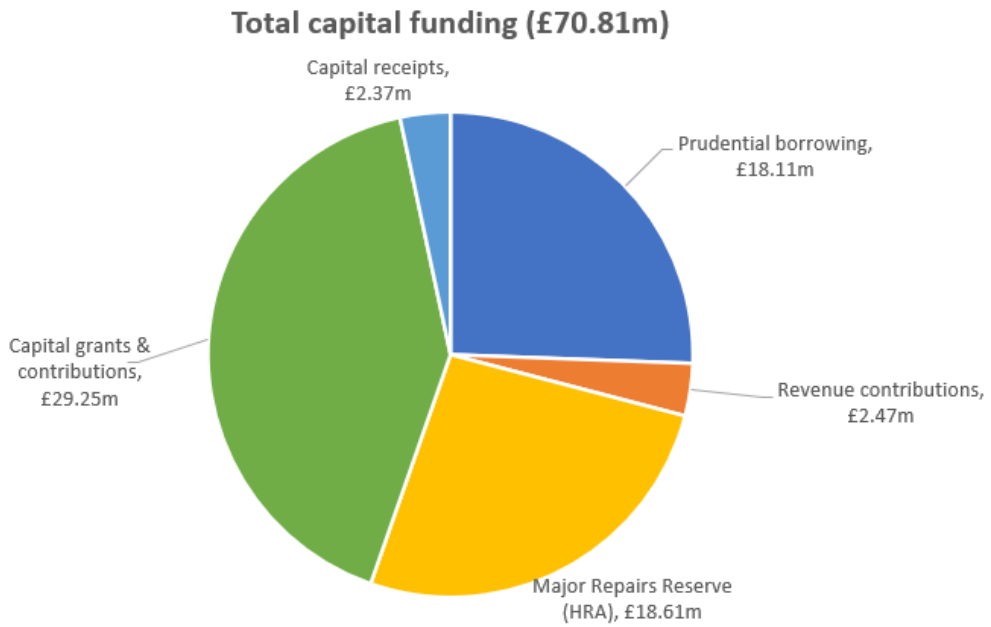
In addition, the Council spent a further £7.8m (2019/20: £11.8m) on schemes where no asset of the Council was created. This includes:

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

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



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



Balance sheet summary

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

Balance Sheet as at 31 March 2020

Total Assets £1,641m					
Long Term Assets £1,453m				Current Assets £188m	
Propert, Plant & Equipment £1,382m	Heritage £27m	Other £5m	Debtors & Investments £39m	Debtors £72m	Cash, equalivalents & Others £116m

Less:

Total Liabilities (£1,384m)					
Current Liabilities (£151m)			Non Current Liabilities (£1,233m)		
Borrowing (£67m)	Creditors (£61m)	Cash, equivalents & Others (£23m)	Borrowing (£634m)	Pensions (£533m)	Other (£66m)

Equals:

Total Net Assets £257m

Funded by:

Total Reserves (£257m) Note 6b					
Useable Reserves (£121m)				Unuseable Reserves (£136m)	
General Fund (£17m)	Earmarked (£43m)	HRA (£31m)	Other (£30m)	Pension £533m	Other (£669m)

Balance Sheet as at 31 March 2021

Total Assets £1,667m					
Long Term Assets £1,462m				Current Assets £205m	
Propert, Plant & Equipment £1,393m	Heritage £28m	Other £4m	Debtors & Investments £37m	Debtors £114m	Cash, equalivalents & Others £91m

Less:

Total Liabilities (£1,489m)					
Current Liabilities (£176m)			Non Current Liabilities (£1,313m)		
Borrowing (£44m)	Creditors (£104m)	Cash, equivalents & Others (£28m)	Borrowing (£620m)	Pensions (£630m)	Other (£63m)

Equals:

Total Net Assets £178m

Funded by:

Total Reserves (£178m) Note 6b					
Useable Reserves (£158m)				Unuseable Reserves £20m	
General Fund (£23m)	Earmarked (£88m)	HRA (£31m)	Other (£16m)	Pension £630m	Other (£650m)

Financial Indicators

Financial indicators can be calculated to assess the efficiency of the Council and show whether it is delivering value for money.

Working Capital Ratio

The working capital ratio indicates whether the Council has enough resources to cover its immediate liabilities. A ratio of less than one indicates potential liquidity problems. The Council's ratio is currently 1.2 (1.3 at 31 March 2020) demonstrating a strong position.

Long-Term Borrowing to Long-Term Assets

This ratio shows long term borrowing as a share of long-term assets. A ratio of more than one means that long-term borrowing exceeds the value of long-term assets. The Councils current ratio is 0.4 (0.4 at 31 March 2020), meaning that the Council has enough long-term assets to cover its long-term liabilities.

Other Key Items in 2020/21

Material assets and liabilities: changes in 2020/21

As at 31 March 2021, the Council held £1,462.4m of non-current assets, £204.7m of current assets, £176.5m of current liabilities and £1,313.0m of non-current liabilities.

Non-current assets have increased by £9.757m, primarily due to increase in the value of the Council's asset portfolio.

Current assets have increased by £16.135m, which includes the following significant items:

- An increase of £27.9m in short-term investments due to investment management activities – these result in movements between short-term investments, long-term investments and cash;
- Changes in the values of short-term debtors, assets held for sale and inventory levels resulted in an increase of £41.369m; and
- A £46.4m decrease in cash and cash equivalents.

The Council's current liabilities have increased by £24.8m, which includes the following:

- Cash and cash equivalents (overdrafts) have increased by £0.3m;
- Short-term borrowing has decreased by £22.2m, reflecting the maturity profile of borrowing and use of prudential borrowing for the capital programme; and
- An increase of £26.5m in short-term creditors mainly due to fluctuations in the amounts owed to public bodies
- An increase of £11.1m in revenue grants received in advances and an increase of £5.4m in capital grants received in advance.
- An increase in provisions of £3.8m.

Non-current liabilities have increased by £80.3m, mainly reflecting an increase in pension liabilities of £96.9m, and a decrease of £14.1m in long-term creditors.

Workforce management and exit packages

The 2020/21 Statement of Accounts recognises a cost of £4.7m in relation to actual redundancies and other terminations in 2020/21, including expected redundancies in 2021/22. There were no compulsory redundancies (10 in 2019/20), 108 voluntary redundancies (28 in 2019/20) and 1 other termination (2 in 2019/20).
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 2020/21 totalled £1.6m. £0.8m of this expenditure was funded from a balance sheet provision and recognised in 2019/20, with the remaining expenditure of £0.8m being funded from revenue. In addition, as part of the 2020/21 revenue outturn funds were set aside to create a provision of £4.6m for redundancies in 2021/22.

Pension liability

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

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

The net future pension liabilities in the Council's share of the relevant pension funds has been assessed by an independent actuary as £629.64m (from £532.72m in 2019/20). The deficit on the Fund increased by £96.92m, largely due to financial assumptions around inflation. The Tyne and Wear Pension Fund is revalued every three years by an independent actuary to set future contribution rates. The most recent valuation, as at March 2019, assessed the funding value as 106%. Note 25 to the financial statements provides further details of the Council's pension disclosures.

The deficit at 31 March 2021 takes into account the national judgements on McCloud / Sargeant and Guaranteed Minimum Pensions (GMP).

Council's borrowing position

The Budget and Council Tax Level Report, approved by Council on 27 February 2020, details the 2020/21 borrowing limits for the Council.

The specific borrowing limits set relate to two of the prudential indicators that are required under the Prudential Code. The Council is required to set borrowing limits for the following three financial years. The limits for 2020/21 were as follows:

- Authorised limit for external debt of £880m
- Operational boundary for external debt of £865m

As part of the Council's Treasury Management operation, these indicators are monitored on a daily basis, and neither was exceeded during 2020/21. The highest level of external debt incurred by the Council during the year was £694.738m.

Academy Conversions

On 1 March 2021 the Department for Education (DfE) entered into a funding agreement with two schools which have transferred to the Bishop Wilkinson Catholic Education Trust.

The date of conversion (within the meaning of section 6(2) of the Academies Act 2010), is when the school opened as an academy and the Council ceased to maintain the school with effect from that date.

Significant Issues for 2021/22 and Beyond

Government Funding

On 6 February the council received a one-year financial settlement for 2020/21. The Council to date has no further clarity on the changes being proposed to local government funding and any indicative settlement figures.

On 28 April 2020, the government announced that the Review of Relative Needs and Resources (Fair Funding Review) and the move to 75% business rates retention will no longer be implemented in 2021/22.

On 6 May 2020, the Ministry of Housing, Communities & Local Government announced that the revaluation of business rates, due to take place in April 2021, will no longer take place. The government announced at the same time that it is continuing work on the fundamental review of business rates. There has since been notification of the next revaluation date as 1 April 2023.

The current MTFS outlines a funding gap of £58m over the next 5 years. This is best estimate given there is no certainty of funding levels beyond 2021/22 and an absence of guidance in this area.

Revenue budget 2021/22

Council agreed the revenue budget for 2021/22 at its meeting on 27 February 2021. This was set at £238.758m (excluding schools) and included £8.117m in savings, some of which required further consultation and Cabinet reporting throughout the year.

Capital Programme 2021/22

On 27 February 2021, the Council approved a capital programme of £142.9m for 2021/22, which included £25.6m of planned HRA capital investment. Capital investment can have a significant impact on the local economy within Gateshead to help people thrive with investment in schemes to encourage economic and housing growth over the period.

Budget Review – COVID-19 Impacts

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

Economic Growth

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

The development has planning approval, operators have been secured for the Arena CEC (ASM Global) and the Hotel (Accor, managed by Vine Hotels) and heads of terms have been agreed to provide the required development finance to ensure a viable, thriving and sustainable scheme can be delivered.

Construction is expected to commence in the 2021/22 financial year and is anticipated to open in 2024, helping to generate significant economic growth and act as a catalyst for further development. The scheme is projected to deliver a £60m boost annually to the local economy, supporting over 2,000 jobs (including the construction phase) and attracting 800,000 visitors to the region annually helping to strengthen NewcastleGateshead's position as a world class location for events and business activity.

Welfare reform

The further roll out of Universal Credit (UC) continues to have a detrimental impact on bad debt in relation to council tax and rent collection as the natural migration of claims continues.

COVID-19 has had an impact on the number of people migrating naturally to Universal Credit. Whilst the Government have paused the managed migration, which was due to be completed by September 2024, the DWP are working on a project to identify clients who would financially benefit from moving to Universal Credit. The impact of this project is unknown and will be closely monitored once administration begins.

There have been considerable changes in relation to the Council Tax Support caseload over the year. The anticipated significant rise in claims has not yet materialised and this picture is comparable with neighbouring authorities. It is difficult to be certain of the scale of the impact of COVID-19 due to the expected changes once the furlough scheme is phased out. However, it is still expected that there will be an increase in new claims to Council Tax Support which will increase the overall cost of the scheme and demands on Discretionary Housing Payments (DHP) are also expected to rise. In addition, there are wider financial implications due to increased demand for Council welfare services as a result of the Government's changes and the COVID-19 pandemic.

COVID-19

The Council has faced unprecedented challenges as a result of the pandemic, although having commenced in 2020/21, the impact will continue into 2021/22 and future years and exacerbates the already uncertain funding regime. The economy in the borough, and the wider North East, had a range of long-standing economic challenges prior to COVID-19. The pandemic restrictions have amplified the need to ensure the Council is in the right shape to help build back an economy that is more productive, inclusive, and sustainable. As such, the Council will continue to proactively plan in response to the emerging situation. Managing the ongoing impact and promoting recovery for the borough and its residents and communities is a key priority.

The financial impact of COVID-19 in 2020/21 has been closely managed and monitored throughout the year. The overall impact of COVID-19 has been managed through the receipt of specific COVID-19 grant and allocations of emergency funding. To date this has mitigated the financial impact on the Council however, it is unclear how long this support will continue. The financial impact for 2020/21 consists of additional expenditure, lost income and delayed savings. This is offset in part by specific grants from Government of £14.8m. Total emergency funding for expenditure and lost income amounted to £17.991m which is held in reserves to meet ongoing COVID-19 related spend and lost income in 2021/22 and beyond. There is also a significant transfer to reserves of £28.239m required this year relating to Section 31 grants in support of the collection fund deficit. The grants are one off and will be held in reserve and used to support the Collection Fund deficit that will be faced in 2021/22 due to the pandemic measures. In addition, there are carry forwards on other grants such as the Contain Outbreak Management Fund and Test and Trace grant that will be spent in 2021/22. With the ongoing pandemic and uncertainty around aspects such as emerging variants of concern, the situation will continue to be monitored closely. It is expected the impact will continue to be felt in medium term financial planning and that this will be significantly more challenging than would have been the case prior to the emergence of the virus.

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

Housing Compliance

On 24 April 2019 the Council was issued with a Regulatory Notice from the Regulator of Social Housing outlining a breach of the Home standard. On 29 November 2019 the Council entered into a voluntary undertaking outlining the commitment to resolve the compliance issues raised and deliver better outcomes for residents. The Council have met monthly with the Regulator of Social Housing (RSH) to provide assurance on progress against the voluntary undertaking detailed action plan. An independent audit of compliance has taken place during May and June 2021 following which a review of the regulatory notice will be requested of the RSH.

Housing Review

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

On 17 November 2020 Cabinet agreed to the integration of the management and maintenance of its housing stock back into the Council with effect from 1 April 2021.

Strategic Risks for 2021/22

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

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

The Council's key strategic risks are:

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

The Statement of Accounts

The Statement of Accounts is set out on pages 22 to 85. The Statement covers the financial year from 1 April 2020 to 31 March 2021, 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 (p20) explains both the Council's and the Strategic Director, Resources and Digital responsibilities in respect of the Statement of Accounts.

Financial Statements (pages 22 to 85):

Movement in Reserves Statement (p22) 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 (p23) 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 24.

Balance Sheet (p25) 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 (p26 to 27) summarises the cash and cash equivalent receipts and payments of the Council and Group arising from transactions with third parties.

Notes to the Financial Statements (p28) provide additional information for significant items to support the statements above. Where group transactions are significant, these are separately disclosed.

Housing Revenue Account (HRA)

- **HRA Income and Expenditure Statement (p80)** covers the provision and maintenance of the Council's housing stock. There is a statutory requirement to produce this account, which separates housing from all other Council services.
- **Statement of Movement on the HRA Balance (p80)** 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 (p81)** provide additional information to support the HRA statements.

Collection Fund

- **The Collection Fund Statement (p84)** - the Council is required to maintain a Collection Fund, which shows the transactions of the Council in relation to business rates and council tax and illustrates the way in which these have been distributed to preceptors and the General Fund.
- **Notes to the Collection Fund Statement (p85)** provide additional information to support the Collection Fund Statement.

Documents Supporting the Statement of Accounts

Annual Governance Statement (p87), required by regulations to accompany the Statement of Accounts, outlines the Council's approach to corporate governance and internal control.

Independent Auditor's Report (p94) details the basis of the external auditor's opinion on the Statement of Accounts.

Glossary of Terms (p98) includes a description of the key terms used in the Statement of Accounts, along with explanations of any technical terms.

Contacts (p105) includes a list of key contacts regarding the Statement of Accounts.

Darren Collins
Strategic Director, Resources and Digital & Borough Treasurer

Statement of Responsibilities

The Council and Group's Responsibilities

The Council and Group are required to:

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

The Strategic Director, Resources and Digital Responsibilities

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

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

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

The Strategic Director, Resources and Digital has also:

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

Chief Finance Officer's Certificate

I hereby certify that the Statement of Accounts for the year ended 31 March 2021, required by the Accounts and Audit Regulations 2015 are set out in the following pages.

I further certify that the Statement of Accounts give a true and fair view of the financial position of the Council and Group at 31 March 2021 and of its income and expenditure for the year ended 31 March 2021.

Signed: Date: 30 September 2021

Darren Collins
Strategic Director, Resources and Digital & Borough Treasurer

Part 2: Financial Statements

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

Movement in Reserves Statement

	Note	General Fund Balance	Earmarked GF Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Gateshead usable reserve	TGHC pension reserve	TGHC P&L reserve	Total Group useable reserves	Gateshead unusable reserves	Total Gateshead reserves	Total Group Reserves
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance as at 31 March 2019	**6b**	**21,056**	**31,848**	**31.553**	**0**	**9,813**	**14,924**	**109,194**	**(46,250)**	**803**	**63,747**	**51,657**	**160,851**	**115,404**
Movement in reserves during the year														
Total comprehensive income and (expenditure)		(11,623)	0	3,753	0	0	0	(7,870)	(4,450)	(156)	(12,476)	103,885	96,015	91,409
Adjustments between group accounts and Gateshead Council single entity accounts		0	0	0	0	0	0	0	0	0	0	0	0	0
Adjustments between accounting basis and funding basis under regulations	**6a**	7,104	11,543	(4,271)	0	2,220	2,842	19,438	0	0	19,438	(19,438)	0	0
Increase or (decrease) in year		**(4,519)**	**11,543**	**(518)**	**0**	**2,220**	**2,842**	**11,568**	**(4,450)**	**(156)**	**6,962**	**84,447**	**96,015**	**91,409**
Balance as at 31 March 2020	**6b**	**16,537**	**43,391**	**31,035**	**0**	**12,033**	**17,766**	**120,762**	**(50,700)**	**647**	**70,709**	**136,104**	**256,866**	**206,813**
Movement in reserves during the year														
Total comprehensive income and (expenditure)		(19,847)	0	(6,268)	0	0	0	(26,115)	(22,960)	(75)	(49,150)	(53,170)	(79,285)	(102,320)
Adjustments between group accounts and Gateshead Council single entity accounts		0	0	0	0	0	0	0	0	0	0	0	0	0
Adjustments between accounting basis and funding basis under regulations	**6a**	26,189	44,438	6,019	0	(663)	(12,729)	63,254	0	0	63,254	(63,254)	0	0
Increase or (decrease) in year		**6,342**	**44,438**	**(249)**	**0**	**(663)**	**(12,729)**	**37,139**	**(22,960)**	**(75)**	**14,104**	**(116,424)**	**(79,285)**	**(102,320)**
Balance as at 31 March 2021	**6b**	**22,879**	**87,829**	**30,786**	**0**	**11,370**	**5,037**	**157,901**	**(73,660)**	**572**	**84,813**	**19,680**	**177,582**	**104,494**

Comprehensive Income and Expenditure Statement

Council position:

2019/20				2020/21			
Gross Exp. £000s	Gross Income £000s	Net Exp. £000s	Service	Gross Exp. £000s	Gross Income £000s	Net Exp. £000s	Notes
199,200	(103,037)	96,163	Children, Adults and Families	229,299	(120,792)	108,507	
11,560	(3,358)	8,202	Corporate Services & Governance & Office of the Chief Executive	11,017	(2,772)	8,245	
33,219	(15,169)	18,050	Economy, Innovation and Growth	39,109	(12,292)	26,817	
69,271	(35,876)	33,395	Housing, Environment and Healthy Communities	68,023	(35,412)	32,611	
10,973	(11,291)	(318)	Other Corporate Income and Expenditure	16,389	(12,039)	4,350	
28,387	(22,862)	5,525	Public Health and Wellbeing	27,427	(23,195)	4,232	
87,802	(67,271)	20,531	Resources & Digital (including Housing Benefits)	80,254	(64,072)	16,182	
88,329	(89,286)	(957)	Schools	88,249	(91,937)	(2,688)	
62,624	(79,176)	(16,552)	Housing Revenue Account	72,182	(78,312)	(6,131)	
591,365	**(427,326)**	**164,039**	**Cost of services**	**632,949**	**(440,823)**	**192,126**	8
		15,405	Other operating expenditure			13,091	7b
		40,824	Financing and investment income & expenditure			39,302	7b
		(212,398)	Taxation and non-specific grant income			(218,404)	7b
		7,870	**(Surplus) or deficit on provision of services**			**26,115**	
		(36,137)	(Surplus) or deficit on revaluation of non-current assets			(17,511)	17
		(71,630)	Re-measurements of the net defined benefit liability			71,280	25
		3,882	(Surplus) or deficit on financial assets measured at fair value through other comprehensive income			(599)	26
		(103,885)	**Other comprehensive (income) and expenditure**			**53,170**	
		(96,015)	**Total comprehensive (income) and expenditure**			**79,285**	

Please note all amounts included above relate to continuing operations

Group position:

2019/20				2020/21			
Gross Exp. £000s	Gross Income £000s	Net Exp. £000s	Service	Gross Exp. £000s	Gross Income £000s	Net Exp. £000s	Notes
199,036	(102,995)	96,041	Children, Adults and Families	229,118	(120,759)	108,359	
10,926	(2,804)	8,122	Corporate Services & Governance & Office of the Chief Executive	10,294	(2,128)	8,166	
33,135	(15,085)	18,050	Economy, Innovation and Growth	38,926	(12,175)	26,751	
66,950	(33,865)	33,085	Housing, Environment and Healthy Communities	65,930	(33,614)	32,316	
9,644	(9,962)	(318)	Other Corporate Income and Expenditure	16,389	(12,039)	4,350	
28,371	(22,846)	5,525	Public Health and Wellbeing	27,427	(23,195)	4,232	
85,819	(65,434)	20,385	Resources & Digital (including Housing Benefits)	78,034	(61,867)	16,167	
88,329	(89,286)	(957)	Schools	89,249	(91,937)	(2,688)	
68,845	(80,745)	(11,900)	Housing Revenue Account	78,196	(79,260)	(1,064)	
591,055	**(423,022)**	**168,033**	**Cost of services**	**633,563**	**(439,974)**	**196,589**	
		14,967	Other operating expenditure			12,493	
		41,894	Financing and investment income & expenditure			40,422	
		(212,398)	Taxation and non-specific grant income			(218,404)	7b
		12,496	**(Surplus) or deficit on provision of services**			**31,100**	
		(36,137)	(Surplus) or deficit on revaluation of non-current assets			(17,511)	17
		(71,650)	Re-measurements of the net defined benefit liability			89,330	25
		3,882	(Surplus) or deficit on financial assets measured at fair value through other comprehensive income			(599)	26
		0	Other gains/losses				
		(103,904)	**Other comprehensive (income) and expenditure**			**71,220**	
		(91,408)	**Total comprehensive (income) and expenditure**			**102,320**	

Please note all amounts included above relate to continuing operations

Balance Sheet

31/03/2020 £000s (Restated) Group	Gateshead		31/03/2021 £000s Group	Gateshead	Notes
1,382,853	1,382,314	Property, plant & equipment	1,393,970	1,393,141	17
27,152	27,152	Heritage assets	27,709	27,709	18
1,285	1,285	Investment property	833	833	
2,639	2,590	Intangible assets	3,438	3,415	
8,595	8,595	Non-current investments	9,194	9,194	26
30,672	30,672	Non-current debtors	28,073	28,073	22
1,453,196	**1,452,608**	**Non-current assets**	**1,463,217**	**1,462,365**	
47,144	47,144	Current investments	75,023	75,023	26
8,042	8,042	Assets held for sale	1,553	1,553	
1,846	619	Inventories	1,644	419	
68,305	72,268	Current debtors	114,024	113,637	22
69,466	60,490	Cash and cash equivalents	16,093	14,066	21
194,803	**188,563**	**Current assets**	**208,337**	**204,698**	
(20,615)	(20,615)	Cash and cash equivalents	(20,888)	(20,888)	21
(66,586)	(66,586)	Current borrowing	(44,375)	(44,375)	26
(3,275)	(3,275)	Current provisions	(7,111)	(7,111)	24
(5,233)	(5,233)	Revenue Grants Received in Advance	(16,302)	(16,302)	10
(148)	(148)	Capital Grants Received in Advance	(5,547)	(5,547)	10
(61,829)	(55,767)	Current creditors	(86,049)	(82,233)	23
(157,686)	**(151,624)**	**Current liabilities**	**(180,272)**	**(176,456)**	
(57,467)	(57,467)	Non-current creditors	(54,372)	(54,372)	23
(8,429)	(8,310)	Non-current provisions	(9,045)	(8,942)	24
(634,184)	(634,184)	Non-current borrowing	(620,071)	(620,071)	26
(583,420)	(532,720)	Pensions liability	(703,300)	(629,640)	25
(1,283,500)	**(1,232,681)**	**Non-current liabilities**	**(1,386,788)**	**(1,313,025)**	
206,813	**256,866**	**Net assets**	**104,494**	**177,582**	
		Usable reserves:			
12,033	12,033	Capital Receipts Reserve	11,370	11,370	
17,766	17,766	Capital Grants Unapplied	5,037	5,037	
11,058	11,058	General Fund - General Reserve	13,967	13,967	
5,479	5,479	General Fund - LMS Reserve	8,912	8,912	
31,035	31,035	Housing Revenue Account	30,786	30,786	
43,391	43,391	Earmarked Reserves	87,829	87,829	
647	0	Useable Reserves of Group Entities	572	0	
(50,700)	0	TGHC Pension Reserve	(73,660)	0	
70,709	**120,762**	**Total usable reserves**	**84,813**	**157,901**	6b
136,104	**136,104**	**Unusable reserves**	**19,681**	**19,681**	
206,813	**256,866**	**Total reserves**	**104,494**	**177,582**	

Signed: Date: 30 September 2021

Darren Collins
Strategic Director, Resources and Digital & Borough Treasurer

Cash Flow Statement

2019/20 £000s Group	2019/20 £000s Gateshead		2020/21 £000s Group	2020/21 £000s Gateshead
12,496	**7,870**	**Net (surplus) or deficit on the provision of services**	**31,100**	**26,115**
		Adjustments to net surplus or deficit on the provision of service for non-cash movements:		
(47,164)	(46,914)	Depreciation of non-current assets	(48,125)	(47,955)
(4,185)	(4,185)	Impairment / downward revaluation of non-current assets	(34,448)	(34,448)
(1,069)	(1,069)	Amortisation of intangible non-current assets	(1,373)	(1,373)
(23,050)	(18,580)	Pension adjustments	(30,534)	(25,640)
(2,088)	(2,088)	Increase/decrease in impairment for provision for bad debts	(906)	(906)
(1,002)	(1,002)	Contributions (to) / from provisions	(4,468)	(4,468)
(8,178)	(8,178)	Carrying amount of property, plant and equipment, investment property, assets held for sale and intangible assets sold	(3,490)	(3,490)
265	124	(Decrease)/increase in inventories	(202)	(200)
2,785	2,099	(Decrease)/increase in debtors	40,646	41,428
1,347	4,392	Decrease/(increase) in creditors	(28,551)	(35,929)
434	434	Decrease/(increase) in valuation of financial instruments	477	477
4,141	4,136	Other non-cash movement – Non Council REFCUS	0	0
(77,764)	**(70,830)**		**(110,974)**	**(112,504)**
		Adjustments for items included in the net surplus or deficit on the provision of service that are investing or financing activities:		
6,296	6,296	Proceeds from the disposal of PPE, investment property, assets held for sale and intangible assets	3,748	3,314
32,069	32,069	Capital grants credited to surplus or deficit on the provision of services	29,856	29,856
(874)	(874)	Any other items for which the cash effects are investing or financing activities	(833)	(833)
37,491	**37,491**		**32,771**	**32,337**
(27,777)	**(25,469)**	**Net cash flows from operating activities**	**(47,103)**	**(54,052)**

		Net cash flows from investing activities:		
65,227	65,227	Purchase of property, plant and equipment, investment property, assets held for sale and intangible assets	63,124	63,124
158,000	158,000	Purchase of short term and long term investments	653,229	653,229
331	331	Other payments for investing activities	0	0
(6,296)	(6,296)	Proceeds from the sale of property, plant and equipment, investment property, assets held for sale and intangible assets	(3,314)	(3,314)
(179,500)	(179,500)	Proceeds from the sale of short term and long term investments	(625,305)	(625,305)
(5)	0	Other receipts for investing activities	0	0
37,757	**37,762**	**Net cash flows from investing activities**	**87,734**	**87,734**
		Net cash flows from financing activities:		
(53,000)	(53,000)	Cash receipts of short and long term borrowing	(4,500)	(4,500)
2,563	2,563	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on Balance Sheet PFI contracts	3,021	3,021
(31,797)	(31,797)	Capital grants received (government)	(22,098)	(22,098)
28,829	28,829	Repayment of short and long term borrowings	40,554	40,554
(3,962)	(3,962)	Other payments/receipts for financing activities	(3,962)	(3,962)
(57,367)	**(57,367)**	**Net cash flows from financing activities**	**13,015**	**13,015**
(47,386)	**(45,074)**	**Net (increase)/ decrease in cash and cash equivalents**	**53,645**	**46,697**

1,465	**(5,199)**	**Cash and cash equivalents at the beginning of the period**	**48,851**	**39,875**
48,851	**39,875**	**Cash and cash equivalents at the end of the period**	**(4,794)**	**(6,822)**

		Balance of Cash and cash equivalents		
	60,490	Current Assets		14,066
	(20,615)	Current Liabilities		(20,888)
	39,875	**Cash and cash equivalents at the end of the period**		**(6,822)**

Notes to the Financial Statements

1. Significant Accounting Policies

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

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

The most significant policies affecting the Statement are included within the notes below, and the accounts have been prepared on a *going concern* basis, on the basis of continued provision of services.

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

2. Critical judgements in applying accounting policies

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

- **Leases:** determination as to whether lease arrangements are finance or operating leases;
- **PFI:** a determination as to whether PFI assets and liabilities are on- or off-Balance Sheet;
- **Provisions, contingent liabilities and contingent assets:** an assessment of future liabilities and assets that may constitute provisions, contingent liabilities or contingent assets;
- **Group accounts:**
  - An additional transfer of staff from the Council to The Gateshead Housing Company, a subsidiary of the Council, on 1 April 2017 resulted in a significant increase in the pension deficit. This meant the value of The Gateshead Housing Company warranted the preparation of group accounts.
  - In the event that TGHC were wound up, prior to the agreed contract-end date, the Council has guaranteed to fund the past service pension deficit. The Pension Committee agreed the Council's guarantee to fund any pension deficit arising, were the liability to fall due. Therefore, in such a case, there is no possibility of reimbursement from the other member organisations of the Tyne and Wear Pension Fund. In reality, any exit liability would be subsumed as staff would TUPE transfer to the Council. On 17 November 2020 Cabinet agreed to the transfer of TGHC to the Council with effect from 1 April 2021. The decision to subsume the assets and liabilities was made under delegated decision.
  - The differences in accounting policies between the Council and the Gateshead Housing Company are immaterial, see note 7 for further information;
  - It is not felt that the values or nature of the other bodies within the scope of group accounts warrants the preparation of full group accounts; as such, the Council discloses all significant balances and transactions within these bodies that are attributable to the Council. The requirement to produce group accounts is analysed and considered annually, 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.

On 17 November 2020, Cabinet agreed to the integration of the management and maintenance of its housing stock back into the Council with effect from 1 April 2021. The financial statements have not been adjusted for this event as they relate to Group accounts disclosed in the statements but do not relate to conditions at the Balance Sheet date. This means the operations of the Gateshead Housing Company (TGHC) including all assets and liabilities will transfer to the Council with effect 1 April 2021. The current group accounts position reflects the consolidation impact of TGHC operations as it is the only body incorporated to form the group position as at 31 March 2021.

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

4. Accounting standards issued but not yet adopted and other future changes

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

The new/amended standards that may affect the Statement of Accounts from 1 April 2021 and require retrospective application are:

- Definition of a Business: Amendments to IFRS3 Business Combinations;
- Interest Rate Benchmark Reform: Amendments to IFRS9, IAS39 and IFRS7, and
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS9, IAS39, IFRS7, IFRS4 and IFRS16

None of these standards are known to impact on the 2021/22 accounts.

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 2021 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. The Council's net liability includes a share of the overall Pension Fund investment assets. Further details and 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 £181.5m as at 31 March 2021. It is estimated that the annual depreciation charge would increase by £1.982m for every year that useful lives had to be reduced.
- **Revaluations:** Assets are valued in accordance with Royal Institute of Chartered Surveyors (RICS) valuation standards and involve the use of a number of estimation techniques including various property indices. A 1% change in asset valuation would equate to a £13.9m, 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 and to provide additional assurance following the economic uncertainty caused by the ongoing global pandemic and Brexit, the Council made the decision in 2020/21 to value 100% £1.4bn of its property, plant and equipment assets (full details are included in Note 17), an annual review of market conditions (including reviews at the year-end) for all asset categories was undertaken to ensure that the value of assets as at 31 March is not materially misstated. The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a global pandemic on the 11 March 2020, has impacted many aspect of daily life and the global economy, this impact has continued to be felt throughout 2020/21 and therefore the Councils valuations reports from both BNP Paribas and Hilco are subject to "material valuation uncertainty" as set out in VPS 3 and VPGA 10 of the Rics Valuation – Global Standards. The inclusion of the "material valuation uncertainty" declaration does not mean the valuation cannot be relied upon, rather the inclusion is to be transparent of the fact that in current extraordinary circumstances less certainty can be attached to the valuation than would otherwise be the case.
- **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. The Council also holds general and earmarked reserves that can be called upon in the event of major unexpected liabilities arising.

6. Movement in Reserves Statement adjustments

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

Certain reserves are for accounting purposes only, and do not represent usable resources. The Movement in Reserves Statement details all movements in the Council and Group's usable reserves. It also provides a summary of the movements in unusable reserves, the unusable reserves for TGHC represent pension adjustments.

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

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

	General Fund	Earmarked reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
2020/21 movements (£000s)							
Charges for depreciation of non-current assets	32,880	0	0	15,083	0	0	* (47,963)
Impairment and revaluation losses (charged to *surplus or deficit on provision of services*) of non-current assets	24,873	0	9,575	0	0	0	* (34,448)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	(29,856)	0	0	0	0	2,364	* 27,492
Net gain or loss on sale of non-current assets	560	0	(298)	0	3,229	0	∞ (3,491)
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	25,368	0	272	0	0	0	≠ (25,640)
Amount by which council tax income and business rate income included in the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with regulation	27,487	0	0	0	0	0	∑(27,487)
Statutory provision for repayment of debt	(17,559)	0	0	0	0	0	**17,559
Capital expenditure charged to the General Fund / HRA	(2,462)	0	(3,529)	3,529	0	0	*2,462
Transfers to/from earmarked reserves	(44,438)	44,438	0	0	0	0	0
Other transfers to/from reserves required by legislation	9,335	0	0	(18,612)	(3,892)	(15,093)	Ω28,262
Adjustments between accounting basis and funding basis under regulations	**26,188**	**44,438**	**6,020**	**0**	**(663)**	**(12,729)**	**(63,254)**

* All charged to Capital Adjustment Account; ∞ (606) to Revaluation Reserve and (2,885) to Capital Adjustment Account; ≠all charged to Pension Reserve; Ω includes 33,753 to Capital Adjustment Account; ∑all charged to the Collection Fund Adjustment Account

2019/20 movements (£000s)							
Charges for depreciation of non-current assets	31,863	0	0	15,051	0	0	* (46,914)
Impairment and revaluation losses (charged to *surplus or deficit on provision of services*) of non-current assets	4,425	0	(240)	0	0	0	* (4,185)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	(32,069)	0	0	0	0	10,101	*21,968
Net gain or loss on sale of non-current assets	2,264	0	(422)	0	6,335	0	∞ (8,178)
Statutory provision for repayment of debt	(15,787)	0	0	0	0	0	**15,787
Capital expenditure charged to the General Fund / HRA	(124)	0	(3,827)	3,827	0	0	*124
Transfers to/from earmarked reserves	(11,543)	11,543	0	0	0	0	0
Other transfers to/from reserves required by legislation	9,713	0	(0)	(18,878)	(4,115)	(7,259)	Ω 20,539
Adjustments between accounting basis and funding basis under regulations	**7,104**	**11,543**	**(4,271)**	**0**	**2,220**	**2,842**	**(19,439)**

* All charged to Capital Adjustment Account; ∞ (2,279) to Revaluation Reserve and (5,899) to Capital Adjustment Account; ≠all charged to Pension Reserve; Ω includes 22,320 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 31/03/20 £000s		Transfers in £000s	Transfers out £000s	Balance 31/03/21 £000s
	Usable reserves			
	General Fund balance:			
11,058	General Reserve	63,500	(60,591)	13,967
5,479	LMS Budget Share Reserve	3,825	(392)	8,912
16,537	**General Fund**	**67,325**	**(60,983)**	**22,879**
	Earmarked General Fund reserves:			
14,161	Financial Risk and Resilience	562	(394)	14,329
8,404	Economic, Housing and Environmental Investment	1,836	(2,417)	7,823
7,293	Poverty, Health and Equality Investment	50	(451)	6,892
0	Budget Sustainability and Thrive	5,000	0	5,000
0	Pandemic Services Impact	17,991	0	17,991
0	Pandemic Impact Collection Fund	28,239	0	28,239
1,762	Developers' contributions	1,325	(956)	2,131
8,909	Unapplied revenue grants	112	(7,710)	1,311
1,650	Public health	765	(543)	1,872
1,212	Dedicated Schools Grant (DSG)	1,029	0	2,241
43,391	**Total earmarked General Fund reserves**	**56,909**	**(12,471)**	**87,829**
31,035	Housing Revenue Account (HRA) balance	0	(249)	30,786
	Earmarked HRA reserves:			
0	Major Repairs Reserve	15,083	(15,083)	0
12,033	Capital Receipts Reserve	3,230	(3,893)	11,370
17,766	Capital Grants Unapplied	2,365	(15,094)	5,037
120,762	**Total usable reserves**	**144,912**	**(107,773)**	**157,901**
	Unusable reserves			
212,340	Revaluation Reserve	17,511	(6,571)	223,280
466,406	Capital Adjustment Account	89,352	(93,383)	462,375
(18,802)	Financial Instrument Adjustment Account	476	0	(18,326)
8,344	Financial Instrument Revaluation Reserve	599	0	8,943
76	Deferred Capital Receipts Reserve	0	0	76
3,647	Collection Fund Adjustment Account	4,204	(31,691)	(23,840)
(3,187)	Accumulated Absences Account	0	0	(3,187)
(532,720)	Pensions Reserve	0	(96,920)	(629,640)
136,104	**Total unusable reserves**	**112,142**	**(228,565)**	**19,681**
256,866	**Total reserves of the Council**	**257,054**	**(336,338)**	**177,582**
647	P&L Reserve - TGHC	**0**	**(75)**	572
(50,700)	Pensions Reserve - TGHC	**0**	**(22,960)**	(73,660)
206,813	**Total reserves of the Group**	**257,054**	**(359,373)**	**104,494**

Usable Reserves

At outturn, general fund balances and strategic earmarked reserves were reviewed and the following changes to strategic reserves will be agreed by Cabinet in July 2021;

- Creation of a new Pandemic Service Impacts Reserve to hold £17.991m of funding in support of 2021/22 and beyond.
- Creation of a new Pandemic Impact Collection Fund Reserve. This reserve is to hold £28.239m of funding passed to the Council by the Government in 2020/21 but are to be used specifically to finance the revenue budget in 2021/22.
- Creation of a new strategic Budget Sustainability and Thrive reserve £5.0m. This is to help support the timings of achieving significant budget savings and Thrive outcomes whilst still dealing with pandemic impacts.

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

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

The **Housing Revenue Account (HRA)** reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989[3]. It contains the balance of income and expenditure as defined by the Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

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

- **Financial risk and resilience:** this reserve was created to set aside funds in respect of key financial risks identified through the risk management such as the risks in relation to business rates, insurance, grant clawback and budget flexibility;
- **Economic, housing and environmental investment:** this reserve was created to stimulate economic growth and to tackle environmental issues across the borough. It provides funding to support the key themes which underpin the MTFS and the Thrive agenda;
- **Poverty, health and equality investment:** this reserve was created to support the Anti-Poverty Strategy and to alleviate the impact of welfare reform and austerity on the residents of Gateshead, which is consistent with Thrive priorities;
- **Budget Sustainability and Thrive** This newly created reserve is to help support the timings of achieving significant budget savings and Thrive outcomes whilst still dealing with pandemic impacts.
- **Pandemic Services Impact:** funding to mitigate pandemic impacts in 2021/22 and beyond.
- **Pandemic Impact Collection Fund:** funding to mitigate the deficit in the collection fund in relation to council tax and business rates in 2021/22.
- **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;
- **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

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

for other priorities within the Council. Use of this reserve will be agreed by Schools Forum;

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

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

The **Major Repairs Reserve** (MRR) is an earmarked HRA reserve used to fund capital improvements or to repay historic debt. The minimum amount transferred to the MRR each year is equivalent to the depreciation charge. The balance shows the MRR resources yet to be applied at the year-end.

Unusable Reserves

The **Revaluation Reserve** contains gains made by the Council arising from increases in non-current asset values. The balance is reduced when assets with accumulated gains are revalued downwards or impaired and the gains are lost; used in the provision of services and the gains are consumed through depreciation; or disposed of and the gains are realised.

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

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

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

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

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

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

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

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

The **Accumulated Absences Account** absorbs differences that would otherwise arise on the General Fund balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March 2021. 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 in note 6b.

7. Comprehensive Income and Expenditure Statement (CIES) information

a. Key accounting policies:

Accruals of income and expenditure (Council and Group)

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract;
- Supplies are recorded as expenditure when they are consumed – where there is a difference between the date supplies are received and the date of their consumption, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract; and
- Where income and expenditure have been recognised but cash has not been received or paid (subject to a *de minimis* threshold of £10,000 within the Council's accounts), a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to the CIES for the income that might not be collected.

Charges to revenue for non-current assets

Group:

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

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off (may also be credited with the reversal of previous years' losses); and
- amortisation of intangible assets attributable to the service.

Council Only:

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

Value added tax (VAT) (Council and Group)

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

Council tax and business rates (Council only)

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

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

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

2019/20 £000s		2020/21 £000s
	Other operating expenditure	
1,842	(Gains) / losses on the disposal of non-current assets	262
	Precepts and levies:	
168	Environment Agency levy	170
20	Tyne Port Health Authority precept	22
10,949	Tyne and Wear Integrated Transport Authority levy	10,888
11	Lamesley Parish Council precept	12
2,415	Payments to the housing capital receipts pool	1,737
15,405		**13,091**
	Financing and investment income and expenditure	
27,694	Interest payable and similar charges	27,512
13,640	Net interest on defined benefit liability / (asset)	11,960
(1,702)	Interest receivable and similar income	(2,236)
1,192	(Surpluses) / deficits on trading activities	2,066
40,824		**39,302**
	Taxation and non-specific grant income	
(92,091)	Council tax income	(95,460)
(43,963)	Government grants not attributable to services	(75,498)
(32,069)	Capital grants and contributions	(29,856)
(44,275)	Business rates retained	(17,590)
(212,398)		**(218,404)**

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:

- £47.954m depreciation - *see Notes 6a, 17 and HRA Notes 5 and 6*;
- £33.748m revaluation losses - *see Notes 6a, 17 and HRA Notes 5 and 6*;
- £71.28m re-measurement of net defined liability (Gateshead) - *see Note 25*; The Group position is a £53.23m re-measurement of net defined liability
- £17.461m increase on revaluation - *see Note 17*.
- £14.8m of specific COVID-19 funding.

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:

2019/20				2020/21		
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**
111,623	(15,460)	96,164	Children, Adults and Families	108,927	(420)	108,507
6,446	1,758	8,202	Corporate Services & Governance and Office of the Chief Executive	6,161	2,083	8,244
(534)	18,584	18,050	Economy, Innovation and Growth	2,730	24,087	26,818
20,725	12,668	33,394	Housing, Environment and Healthy Communities	19,825	12,786	32,611
519	(17,071)	(16,552)	Local authority housing (HRA)	249	(6,379)	(6,130)
(1,328)	1,010	(318)	Other Corporate Income and Expenditure	8,960	(4,610)	4,350
20,044	(14,519)	5,525	Public Health and Wellbeing	20,880	(16,647)	4,232
9,314	11,217	20,532	Resources & Digital	5,766	10,416	16,182
1,154	(2,111)	(957)	Schools	(3,433)	745	(2,688)
167,963	**(3,924)**	**164,041**	**Net Cost of Services**	**170,065**	**22,061**	**192,126**
7,494	**(7,494)**	**0**	Review of Strategic Reserves	5,000	(5,000)	0
(170,421)	14,252	(156,170)	Other income and expenditure	(181,157)	15,146	(166,011)
5,037	Ω **2,834**	**7,870**	**(Surplus) / Deficit**	**(6,092)**	Ω **32,207**	**26,115**
		52,609	**Opening General Fund and HRA balance**	**47,572**		
		$(5,037)	+/- surplus/(deficit) on General Fund and HRA balance	$6,093		
		47,572	**Closing General Fund and HRA balance**	**53,665**		

‡ 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

2019/20					2020/21			
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
4,841	1,963	(22,264)	(15,460)	Children, Adults and Families	19,341	5,312	(25,074)	(421)
0	171	1,761	1,932	Corporate Services & Governance and Office of the Chief Executive	0	769	1,315	2,084
16,764	478	1,342	18,584	Economy, Innovation and Growth	19,794	1,241	3,052	24,087
11,295	643	385	12,323	Housing, Environment and Healthy Communities	13,142	1,617	(1,974)	12,785
(17,197)	126	0	(17,071)	Local authority housing (HRA)	(6,540)	161	0	(6,379)
0	2,286	(1,276)	1,010	Other Corporate Income and Expenditure	(1,010)	1,091	(4,691)	(4,610)
3,796	441	(18,756)	(14,519)	Public Health and Wellbeing	1,992	947	(19,587)	(16,648)
6,706	610	4,072	11,388	Resources & Digital	8,283	1,533	600	10,416
(56)	(2,480)	425	(2,111)	Schools	(312)	(526)	1,583	745
26,149	**4,238**	**(34,311)**	**(3,924)**	**Net Cost of Services**	**54,690**	**12,145**	**(44,776)**	**22,059**
(28,836)	14,342	28,746	14,252	Other income and expenditure from the Expenditure and Funding Analysis	(31,158)	13,494	32,810	15,146
0	0	(7,494)	(7,494)	Review of strategic Reserves	0	0	(5,000)	(5,000)
(2,687)	**18,580**	**(13,059)**	**2,834**	**Difference between General Fund surplus or deficit and CIES (surplus) / deficit on the Provision of Services**	**23,532**	**25,639**	**(16,966)**	**32,205**

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.

2019/20 £000s		2020/21 £000s
	Expenditure	
218,209	Employee expenses	223,811
87,980	Other Services	74,609
227,173	Third party and transfer payments	242,001
8,812	Support service recharge	7,903
46,321	Depreciation, amortisation and impairment and interest payable	65,441
11,148	Precepts and Levies	11,092
599,643		**624,857**
(16,553)	Housing Revenue Account (HRA)	(6,129)
	Income	
(271,721)	Government grants and contributions	(331,697)
(56,210)	Other grants, reimbursements and contributions	(60,100)
(70,069)	Fees, charges and other service income	(54,603)
(2,691)	Interest and investment income	(2,208)
(38,163)	Recharges	(30,955)
(136,366)	Income from council tax and business rates	(113,050)
(575,220)		**(592,613)**
7,870	**(Surplus) or Deficit on the Provision of Services**	**26,115**

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

2019/20 £000s		2020/21 £000s
	Fees, charges and other service income by segment	
(18,306)	Children, Adults and Families	(16,532)
(21,528)	Housing, Environment and Healthy Communities	(19,497)
(13,322)	Economy, Innovation and Growth	(10,397)
(6,529)	Public Health and Wellbeing	(484)
(4,061)	Resources & Digital	(3,667)
(1,935)	Corporate Services & Governance and Office of the Chief Executive	(1,734)
(797)	Other Corporate Income	(819)
(3,592)	Schools	(1,473)
(70,070)	**Total**	**(54,603)**

9. Dedicated Schools Grant

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

DSG is deployed in accordance with regulations made under the Schools Standards and Framework Act 1998 (England). The grant can only be applied to meet expenditure included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2020, 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 2020/21 are as follows:

	Central expenditure £000s	ISB £000s	Total £000s
Final DSG for 2020/21 before academy recoupment	30,487	126,117	156,604
Academy figure recouped for 2020/21	(628)	(50,387)	(51,015)
Total DSG after academy recoupment 2020/21	**29,859**	**75,730**	**105,589**
Plus: brought forward from 2019/20	422	790	1,212
Less: carry-forward to 2021/22 agreed in advance	0	0	0
Agreed initial budgeted distribution in 2020/21	**30,281**	**76,520**	**106,801**
In-year adjustments	(198)	0	(198)
Final budgeted distribution in 2020/21	**30,083**	**76,520**	**106,603**
Less: actual central expenditure	(28,781)		(28,781)
Less: actual ISB deployed to schools		(75,581)	(75,581)
Plus: local authority contribution for 2020/21	0	0	0
In year Carry-forward to 2021/22	1,302	939	2,241
Plus: Carry-forward to 2021/22 agreed in advance	0	0	0
Carry-forward to 2021/22	**1,302**	**939**	**2,241**

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 £0.938m in 2020/21 (£1.001m in 2019/20).

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

2019/20 £000s		2020/21 £000s
	a) General government grants not attributable to Services	
(30,121)	Revenue Support and Top Up Grant	(30,611)
(13,842)	Other Grants	(44,886)
(43,963)		**(75,497)**
	b) Specific government grants attributable to Services	
(17,312)	Ministry of Housing, Communities and Local Government	(31,062)
(124,606)	Department for Education	(127,063)
(59,834)	Department for Work and Pensions	(55,937)
(16,358)	Department for Health and Social Care	(16,541)
(9,648)	Joint / other	(25,597)
(227,758)		**(256,200)**
	c) Capital grant income not attributable to Services	
(3,197)	Ministry of Housing, Communities and Local Government	(2,214)
(2,478)	Department for Education	(2,624)
0	European Regional Development Fund	0
(8,458)	Other government grants	(9,684)
(1,224)	Other non-government grants	(181)
(16,689)	Other non-government contributions	(2,034)
(32,046)		**(16,737)**
(303,767)	**Total grants and government contributions**	**(348,434)**
	d) Other contributions and donations	
(56,209)	Other revenue contributions attributable to Services	(60,100)
0	Other capital contributions not attributable to Services	0
(23)	Donated assets not attributable to Services	(13,119)
(56,232)	**Total other contributions**	**(73,219)**

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned if the conditions are not met. The balances at the year-end are as follows :-

Current Liabilities

2019/20 £000s		2020/21 £000s
	Grant Receipts in Advance (Revenue Grants)	
(4,983)	Other Grants	(16,093)
(109)	DCLG Estate Regeneration Funding	(68)
(141)	Reward Grant (Job Centre Plus)	(141)
(5,233)	**Total**	**(16,302)**

2019/20 £000s		2020/21 £000s
	Grant Receipts in Advance (Capital Grants)	
(20)	Section 106 Contributions from Private Developers - Town and Country Planning Act 1990	(20)
(86)	Homes England	(246)
-	Public Sector Decarbonisation Scheme BEIS	(4,538)
(42)	Section 38 and 278 Contributions from Private Developers for Public Highways	(743)
(148)	**Total**	**(5,547)**

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:

	31/03/20 £000s	31/03/21 £000s
Not later than one year	3,901	4,314
Later than one year and not later than five years	12,885	12,393
Later than five years	141,655	143,383
	158,441	**160,090**

12. Councillors' allowances

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

2019/20 £000s		2020/21 £000s
780	Basic allowance	785
431	Special responsibility allowance	417
27	Other allowances and expenses	0
1,238	**Total**	**1,202**

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

13. External audit costs

The Council and Group have incurred the following costs in relation to the audit of the Statement of Accounts, assurance of grant claims and for other services provided by the Council's and Group's external auditors:

2019/20 £000s		2020/21 £000s
110*	Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year (Mazars LLP)	110
18	Fees payable in respect of other services provided by Mazars LLP during the year	18
128	**Total Council costs**	**128**
30	Fees payable to external auditors with regard to external audit services for TGHC (KPMG LLP)	40
158	**Total Group costs**	**168**

*There is an additional audit fee of £34,181 in respect of the 2019/20 external audit.

14. Officers' remuneration

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

Remuneration of senior employees 2020/21						
Post holder information	Salary, fees & allowances	Expenses allowances *	Loss of Employment Costs	Non-cash benefits	Pension contribution	**Total**
	£	£	£	£	£	**£**
Gateshead						
Chief Executive, S Ramsey	172,636	0	0	0	0	**172,636**
Strategic Director, Resources and Digital	122,758	0	0	0	23,201	**145,959**
Strategic Director, Housing, Environment and Healthy Communities	122,758	0	0	0	24,088	**146,846**
Strategic Director, Economy, Innovation and Growth	122,271	0	0	0	23,338	**145,609**
Strategic Director, Corporate Services and Governance	122,758	0	0	0	23,201	**145,959**
Strategic Director, Children, Adults and Families	141,172	0	0	0	26,681	**167,853**
Director of Public Health	105,668	0	0	0	15,195	**120,863**
	910,021	**0**	**0**	**0**	**135,704**	**1,045,725**
* Returning Officer fees						
TGHC						
Managing Director (interim), N Bouch	122,758	0	0	0	20,623	**143,381**
	122,758	**0**	**0**	**0**	**20,623**	**143,381**

Remuneration of senior employees 2019/20 (Restated)						
Post holder information	Salary, fees & allowances	Expenses allowances *	Loss of Employment Costs	Non-cash benefits	Pension contribution	**Total**
	£	£	£	£	£	**£**
Gateshead						
Chief Executive, S Ramsey	168,015	28,239	0	0	0	**196,254**
Strategic Director, Resources and Digital	119,472	0	0	0	21,744	**141,216**
Strategic Director, Housing, Environment and Healthy Communities	119,472	0	0	0	21,753	**141,225**
Strategic Director, Economy, Innovation and Growth (Acting into role from 01 Nov 2019, appointed 05 Mar 2020)	47,411	0	0	0	8,629	**56,040**
Strategic Director, Corporate Services and Governance	119,472	0	0	0	21,744	**141,216**
Strategic Director, Children, Adults and Families	137,393	0	0	0	25,005	**162,398**
Director of Public Health	98,964	0	0	17	14,231	**113,212**
	810,199	**28,239**	**0**	**17**	**113,106**	**951,561**
* Returning Officer fees						
TGHC						
Managing Director (interim), N Bouch	120,401	0	0	0	21,552	**141,953**
	120,401	**0**	**0**	**0**	**21,552**	**141,953**

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 2020/21 to indicate the cost impact on senior staff:

Council	Number of Employees			
	Incl. redundancies		Excl. redundancies	
	2019/20	2020/21	2019/20	2020/21
£50,000 - £54,999	54	82	53	80
£55,000 - £59,999	39	37	35	36
£60,000 - £64,999	32	29	32	29
£65,000 - £69,999	22	19	22	19
£70,000 - £74,999	8	18	8	17
£75,000 - £79,999	2	4	2	4
£80,000 - £84,999	9	7	9	7
£85,000 - £89,999	0	3	0	3
£90,000 - £94,999	1	5	2	5
£95,000 - £99,999	5	0	6	0
£100,000 - £104,999	0	6	0	6
£105,000 - £109,999	0	0	0	0
£110,000 - £114,999	0	0	0	0
£115,000 - £119,999	0	0	0	0
£120,000 - £124,999	1	0	1	0
£125,000 - £129,999	1	0	0	0
£130,000 - £134,999	0	0	0	0
£135,000 - £139,999	0	0	0	0
£140,000 - £144,999	0	0	0	0
£145,000 - £149,999	0	0	0	0
£150,000 - £154,999	1	0	0	0

Termination benefits / Exit packages

The 2020/21 Statement of Accounts recognises a cost of £4.7m in relation to redundancies and other terminations in 2020/21, including expected redundancies in 2021/22. There were no compulsory redundancies (10 in 2019/20), 108 voluntary redundancies (28 in 2019/20) and 1 other termination (2 in 2019/20). The total cost of redundancies in 2020/21 totalled £1.6m. £0.8m of this expenditure was funded from a balance sheet provision and recognised in 2019/20, with the remaining expenditure of £0.8m being funded from revenue. In addition, as part of the 2020/21 revenue outturn, funds were set aside to create a provision of £4.6m for redundancies in 2021/22. These costs include redundancy payments made to employees and strain on the fund costs payable to the appropriate pension fund:

2019/20					Exit package cost band	2020/21				
Number				Cost		Number				Cost
CRs	VRs	Other	Total	£000s		CRs	VRs	Other	Total	£000s
10	9	2	21	148	£0 - £20,000	0	3	1	4	41
0	4	0	4	129	£20,001 - £40,000	0	1	0	1	29
0	14	0	14	803	£40,001 - £60,000	0	104	0	104	4,644
0	0	0	0	0	£60,001 - £80,000	0	0	0	0	0
0	0	0	0	0	£80,001 - £100,000	0	0	0	0	0
0	1	0	1	140	£100,001 - £150,000	0	0	0	0	0
0	0	0	0	0	£150,001 - £200,000	0	0	0	0	0
10	**28**	**2**	**40**	**1,220**	**Total**	**0**	**108**	**1**	**109**	**4,714**

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 2020/21 is shown in Note 12. During 2020/21, no works and services were commissioned from companies in which councillors had an interest, and the Council entered into no significant 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 2020/21, no related party transactions were entered into with senior officers or their close family members.

Joint arrangements and associates

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

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

Entities controlled or significantly influenced by the Council

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

The Gateshead Housing Company (TGHC) is materially significant to the overall financial position of the Council and has therefore been consolidated into the Group Accounts. Following the Cabinet decision on the 17 November 2020 to re-integrate the housing management and maintenance services back into the Council, TGHC ceased to trade on 1 April 2021. All services have continued to operate and will form part of the Council position for subsequent reporting periods.

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

Newcastle Airport

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. On 4th May 2001, the seven local authority shareholders of NIAL (the "LA7") created NIAL Holdings Limited, which is 51% owned by LA7 and 49% owned by AMP Capital Investors Limited following their purchase on 16th November 2012. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited (NALAHCL), a company wholly owned by the seven authorities. NALAHCL has a called-up share capital of 10,000 shares with a nominal value of £1 each. The Council holds a 13.33% interest in NALAHCL, valued at £8.410m (£7.811m in 2019/20). The shares are not held for trading outside of the LA7.

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially impair the valuation. The spread of COVID-19 across the world towards the end of 2019/20 led to a sudden decline in air travel prompting the value of the shareholding to be impaired. During 20/21 air travel to and from the airport was significantly reduced and whilst a vaccine towards the virus has been developed the travel sector has yet to see any significant increases in passenger numbers. As a result, the majority of the impairment recognised last year has been retained.

Through its shares in NALAHCL the Council has an effective shareholding of 6.80% in NIAL (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of NIAL (registered number 2077766) is the provision of landing services for both commercial and freight operators. No dividend was received for the year ended 31st December 2020 (£0.680m for the year ended 31st December 2019).

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

Due to major curtailments in the airport operations as a result of the COVID-19 pandemic the Council has agreed to modify the terms of these loans and has accepted that under the unprecedented circumstances the airport can defer interest repayments for the following three and a half years (two years in 2019/20) with catch up payments to be made in instalments over a later period. Under the loan agreement the Council is entitled to compound interest for any late payments and this has been factored into the repayments the airport will make once the catch up payments commence. This has resulted in a restatement of the loan value with a cumulative modification loss of £0.833m (£0.874m in 2019/20) being recognized. The increase in loss recognised is charged to the financing and investment income and expenditure line of the CIES. Furthermore, the Council looked at several observable factors regarding the robustness of the airport operations going forward resulting in an expected lifetime loss provision of £0.197m (£0.129m in 2019/20) in the event all repayments are not made at some time in the future.

Other than these loan notes there are no outstanding balances owed to or from NIAL at the end of the year.

NIAL Group Limited made a loss before tax of £34.025m and a loss after tax of £31.835m for the year ended 31 December 2020. In the previous year, the Group made a profit before tax of £11.007m and a profit after tax of £7.502m.

Gateshead Trading Company

The Gateshead Trading Company Ltd (GTC) is a wholly owned subsidiary of the Council limited by shares. Its activities during 2020/21 included construction, design services and economic development. The company's turnover in 2020/21 was £4.546m (£2.699m in 2019/20). The company's cost of sales in 2020/21 was £4.449m (£2.860m in 2019/20). The company made a loss of £0.026m in 2020/21 (loss £0.289m in 2019/20).

Gateshead Energy Company

The Gateshead Energy Company (GEC) is a wholly owned subsidiary of the Council limited by shares. The Council's energy subsidiary commenced trading during 2016/17; its activities involved the management of the Council's town centre district energy network which provides heat and power to local customers. The company's turnover in 2020/21 was £2.018m (£2.413m in 2019/20). The company's cost of sales in 2020/21 was £1.597m (£2.074m in 2019/20). The company made a profit of £0.045m in 2020/21 (loss of £0.286m in 2019/20).

Regent Funeral Services

Regent Funeral Services (RFS) is a wholly owned subsidiary of the Council limited by shares. RFS commenced trading during 2018/19; the principal activity of the company is the delivery of funerals and related activities. The company's turnover in 2020/21 was £0.393m (£0.218m in 2019/20). The company's cost of sales in 2020/21 was £0.216m (£0.106m in 2019/20). The company made a loss of £0.149m in 2020/21 (£0.204m in 2019/20).

PSP Gateshead Limited Liability Partnership (LLP)

PSP Gateshead is a partnership between the Council and Public Sector Plc (PSP) which was incorporated on 13 January 2017 and began trading on 01 April 2019. The company was set up to consider the viability of investment in the Council's portfolio of investment properties with a view to reducing costs, increasing income, enhancing its value and improving the return on its investment. PSP made a loss of £0.112m for the year ended 2020/21 (loss of £0.187m in 2019/20) and had an operating cost of £3.732m in 2020/21 (£3.701m in 2019/20). Any profit generated over and above the base rent is distributed 75% Gateshead Council 25% Public Sector Plc.

The Gateshead Housing Company

The Gateshead Housing Company (TGHC) was formed in 2004 and is the arm's length management company for Gateshead Council which means that they manage and maintain the Council's housing stock. TGHC is wholly owned by the Council and as at 31 March 2021 employs 801 members of staff (762 FTE). TGHC made a loss of £27.695m for the year ended 2020/21 (loss of £4.606m in 2019/20). The company's turnover was £61.251m in 2020/21 (£61.753m in 2019/20). The company's operating costs totalled £65.136m in 2020/21 (£65.304m in 2019/20). The pension liability increased in 2020/21 to £78.320m (£50.700m in 2019/20).

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. This is the final year that TGHC will be included in group accounts.

Gateshead Regeneration LLP

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

Construction is nearing completion on the first tranche of sites, including schemes at Saltwell and Birtley, involving over 360 homes and over £70m of investment. Construction is also underway on the second bundle of sites which involves 62 homes on sites in Windy Nook and Rowlands Gill and over £15m of investment. There were 77 legal completions in 2020/21. GRP continues to experience strong sales performance and growing momentum and

has planning approval for the development of a further 300 homes on the Freight Depot site expected to commence in 2021/22.

GRP made a profit of £0.564m for the year ended 2020/21 (£0.045m profit in 2019/20) taking the overall retained profit for GRP to £1.968m. The company's turnover was £18.862m in 2020/21 (£7.902m in 2019/20). The company's cost of sales was £18.109m in 2020/21 (£7.644m in 2019/20).

The financial projections of the company indicate that its overall profits in 2020/21 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 2020/21 accounts will be published by 31 December 2021.

North Music Trust

The North Music Trust operates out of the Sage Gateshead building which is owned by the Council. The Council leases the building to North Music Trust at a peppercorn rent.

Baltic Flour Mills Visual Arts Trust

The Council owns the Baltic Flour Mill and leases the building to Baltic Flour Mills Visual Arts Trust at a peppercorn rent.

Keelman Homes

Keelman Homes is a charitable company limited by guarantee. The Council has provided loans to Keelman Homes to enable them to carry out their strategic objectives. The amount outstanding at 31 March 2021 was £15.118m. In addition, The Gateshead Housing Company, as part of the group with the Council, manages and maintains the Keelman Homes properties once let and they therefore have day to day responsibility for the operations being undertaken by Keelman Homes.

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).

2019/20		2020/21		
(Profits) / losses £000s		Income £000s	Expenditure £000s	(Profits) / losses £000s
482	Building Cleaning	(3,395)	4,522	1,127
172	Civic Restaurants	(331)	571	240
523	Fleet	(7,424)	7,367	(57)
314	Maintenance	(5,481)	5,988	507
340	School Meals	(4,943)	5,267	324
369	Highways	(17,172)	18,101	929
2,200		**(38,746)**	**41,816**	**3,070**

17. Property, plant and equipment

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

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

- **Measurement:** property, plant and equipment are valued on the basis recommended by CIPFA and in accordance with the methodologies and bases for estimation set out in the professional standards of Royal Institution of Chartered Surveyors (RICS) Valuation Standards (The Red Book). The sources of information and assumptions made in producing the individual property valuations are set out in the valuation report.

  Valuations are carried out by BNP Paribas, as at 1 April 2020 in the reporting period. The Councils Energy from Waste asset and District Energy Centre were subject to a separate specialist valuation carried out by

Hilco. Due to the global pandemic the following material uncertainty clause has been added to the asset valuations:

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets. Market activity is being impacted in many sectors and consequently we consider that less weight can be attached to previous market evidence for comparison purposes to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with unprecedented set of circumstances on which to base a judgement.

Given the unknown future impact that COVID-19 might have on the tangible asset market, it is not possible to quantify any potential impact on the subject assets in a valuation context. However, the inputs to the inputs to the valuation approaches adopted to arrive at our opinions of Current Value in respect of the subject assets, are unlikely to be impacted than compared with market transaction data, and accordingly no adjustment to our reported values is considered relevant in the context of the purpose of valuation.

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. This year the decision was made to revalue 100% of the assets, justification for this included market uncertainty following the global pandemic and Brexit. Property with a value of less than £40,000 is treated as de-minimis. BCIS indices and market intelligence have been used to assess whether any material changes which could impact valuations has occurred between 1 April 2020 and 31 March 2021.

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.

- **Disposal of Assets**: when an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the *Other Operating Expenditure* line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any income arising from the disposal of an asset in excess of £10,000 is categorised as a capital receipt. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.
- **Depreciation:** IAS 16 *Property, Plant and Equipment* requires depreciation to be provided for all non-current assets with a finite useful life (which is determined at the time of acquisition or revaluation) according to the following policy:
    - A full year's depreciation is charged on newly acquired assets in the year of acquisition, although assets in the course of construction are not depreciated until brought into use;
    - Depreciation is calculated using the straight-line method; and

- Generally, assets are depreciated in accordance with the following estimate of useful lives:
  - Computers and other equipment 3-10 years
  - Vehicles (depending on make/model/use) 3-10 years
  - Buildings (depending on use/construction /condition) 15-50 years
  - Infrastructure assets (excluding Millennium Bridge) 30 years
  - Gateshead Millennium Bridge 120 years
  - Council dwellings 50 years

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

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

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

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

Surplus Property

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

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

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

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

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

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

Surplus property				
Fair value using:	Level 1 £000s	Level 2 £000s	Level 3 £000s	**Total £000s**
Residential Land	0	24,360	0	**24,360**
Offices	0	0	0	**0**
Total	0	**24,360**	0	**24,360**

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

Gross book values:

	Other land and buildings *	Buildings under finance lease ‡	Assets under construction ‡	Vehicles, plant and equipment ‡	Council dwellings *	Infrastructure ‡	Community assets ‡	Surplus assets $	**Total**
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Cost or valuation									
Balance at 1 April 2019	**426,607**	**46,838**	**8,051**	**71,129**	**717,351**	**223,073**	**6,009**	**26,841**	**1,525,899**
Reclassifications	(642)	0	(4,737)	0	0	0	49	(2,985)	(8,315)
Additions	13,427	0	19,471	4,738	17,017	11,006	127	150	65,936
Donations	0	0	0	0	0	0	0	0	0
Disposals	(1,587)	0	0	(1,774)	(5,342)	0	0	0	(8,703)
Revaluation increase/(decrease) to Revaluation Reserve	(87)	(5,488)	0	0	10,959	0	0	(543)	4,841
Revaluation increase/(decrease) to Comprehensive I&E	(21,558)	(2,601)	0	0	954	0	0	(227)	(23,432)
Impairment Charged to Revaluation Reserve	0	0	0	0	0	0	0	0	0
Impairment Charged to Comprehensive I&E	0	0	0	0	0	0	0	0	0
Balance at 31 March 2020	**416,160**	**38,749**	**22,785**	**74,093**	**740,939**	**234,079**	**6,185**	**23,236**	**1,556,227**
Reclassifications	10,370	0	(15,529)	0	3,099	0	610	2,616	1,166
Additions	3,912	0	21,358	4,852	19,563	10,871	133	183	60,872
Donations	11,806	0	0	0	0	0	0	0	11,806
Disposals	(750)	0	0	(1,035)	(2,559)	0	0	(365)	(4,709)
Revaluation increase/(decrease) to Revaluation Reserve	6,342	2,319	9,979	0	(16,378)	0	0	(742)	1,520
Revaluation increase/(decrease) to Comprehensive I&E	(21,575)	0	(15,768)	0	(13,826)	0	0	(377)	(51,546)
Impairment Charged to Revaluation Reserve	0	0	0	0	0	0	0	0	0
Impairment Charged to Comprehensive I&E	(700)	0	0	0	0	0	0	0	(700)
Balance at 31 March 2021	**425,565**	**41,068**	**22,825**	**77,910**	**730,838**	**244,950**	**6,928**	**24,551**	**1,574,635**

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

Accumulated depreciation and net book values:

	Other land and buildings *	Buildings under finance lease ‡	Assets under construction ‡	Vehicles, plant and equipment ‡	Council dwellings *	Infrastructure ‡	Community assets ‡	Surplus assets $	**Total**
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Accumulated Depreciation									
Balance at 1 April 2019	**(39,791)**	**(2,337)**	**0**	**(53,624)**	**(14,034)**	**(69,411)**	**(1)**	**(9)**	**(179,207)**
Reclassifications	781	0	0	0	0	0	0	0	781
Disposals	280	0	0	1,646	105	0	0	0	2,031
Depreciation written out to Revaluation Reserve on revaluation	17,987	1,471	0	0	10,744	0	0	0	30,202
Depreciation written out to Comprehensive I&E on revaluation	13,349	2,642	0	0	3,187	0	0	9	19,187
Depreciation	(17,089)	(1,916)	0	(5,624)	(14,819)	(7,450)	0	(8)	(46,906)
Depreciation written out to Revaluation Reserve on impairment	0	0	0	0	0	0	0	0	0
Depreciation written out to Comprehensive I&E on impairment	0	0	0	0	0	0	0	0	0
Balance at 31 March 2020	**(24,483)**	**(140)**	**0**	**(57,602)**	**(14,817)**	**(76,861)**	**(1)**	**(8)**	**(173,912)**
Reclassifications	401	0	0	0	45	0	(82)	(364)	0
Disposals	193	0	0	1,014	51	0	0	0	1,258
Depreciation written out to Revaluation Reserve on revaluation	12,007	140	0	0	10,121	0	0	30	22,298
Depreciation written out to Comprehensive I&E on revaluation	11,872	0	0	0	4,602	0	0	342	16,816
Depreciation	(17,616)	(1,904)	0	(5,737)	(14,910)	(7,568)	0	(191)	(47,926)
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	(28)	0	0	0	0	0	0	0	(28)
Balance at 31 March 2021	**(17,654)**	**(1,904)**	**0**	**(62,325)**	**(14,908)**	**(84,429)**	**(83)**	**(191)**	**(181,494)**

	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 31/03/2020	**391,677**	**38,609**	**22,785**	**16,491**	**726,122**	**157,218**	**6,184**	**23,228**	**1,382,314**
Net Book Value at 31/03/2021	**407,911**	**39,164**	**22,825**	**15,585**	**715,930**	**160,521**	**6,845**	**24,360**	**1,393,141**

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

Revaluations

Valuations are summarised in the table below:

	Other Land and Buildings	Council Dwellings	Vehicles, Plant and Equipment	Surplus Assets	Infrastructure Assets	Community Assets	Assets Under Construction	**Total Valuation**
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	**£000s**
Carried at Historical Cost	2,485	0	77,910		244,950	6,928	22,827	**355,100**
Valued at Current Value as at:								
Assets valued 1 April 2020	466,503	728,482		24,551				**1,219,536**
Assets valued 1 April 2019								
Assets valued 1 April 2018								
Assets valued 1 April 2017								
Assets valued 1 April 2016								
Total Cost or Valuation	**468,988**	**728,482**	**77,910**	**24,551**	**244,950**	**6,928**	**22,827**	**1,574,636**

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. The majority of the Councils collection is valued by the Tyne & Wear Archives & Museums (TWAM) Art Curators with items only being routinely valued if they go out on loan. 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 by the Councils Public Art Curator in 2016/17) for any significant items where possible, or by valuations provided by the Council's Culture service, which are informed by commercial markets and the estimated replacement costs. Acquisitions are made by purchase or donation. Purchases are initially recognised at cost and donations are recognised at valuation with reference to appropriate commercial markets.
- **Buildings:** Buildings that are preserved for future generations due to their historical and cultural nature and have therefore been reclassified by the valuer from Property, Plant and Equipment. The valuation is based on the likely replacement cost, which is informed by knowledge of the structure and ongoing maintenance programs.

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

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

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

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

Note information: The Council has identified £27.7m heritage assets, held to increase the knowledge, understanding of the Council's history and local area. These have been split into the following categories:

- **Civic regalia:** the collection includes a number of artefacts such as the Mayoral chains, the Mace and various items of silverware.
- **Museum collections:** the museum collections include paintings (both oil and watercolour), sculptures and

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

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

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

	Public artwork £000s	Civic regalia £000s	Buildings £000s	Museum collections £000s	Total £000s
Cost or Valuation 2019/20:					
1 April 2019	11,077	379	956	14,641	27,053
Reclassified from PPE	0	0	0	0	0
Additions	16	0	0	0	16
Donations	23	0	0	0	23
Disposals	0	0	0	0	0
Revaluations	60	0	0	0	60
31 March 2020	**11,176**	**379**	**956**	**14,641**	**27,152**
Cost or Valuation 2020/21:					
1 April 2020	11,176	379	956	14,641	27,152
Reclassified from PPE	0	0	0	0	0
Additions	0	0	0	0	0
Donations	313	0	1,000	0	1,313
Disposals	0	0	0	0	0
Revaluations	50	0	(806)	0	(756)
31 March 2021	**11,539**	**379**	**1,150**	**14,641**	**27,709**

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 Framework (which follows the provisions of the Local Government Act 2003).

Capital commitments

At 31 March 2021 the Council had £24m of contractual commitments for the construction or enhancement of property, plant and equipment (£10.6m in 2019/20). These relate to the following schemes:

- Investment in Metrogreen £0.3m
- Investment in Schools Construction £0.8m
- Investment in Gateshead Quays Multi Storey Car Park £22.9m

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):

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

RESTATED 2019/20 £000s		2020/21 £000s
751,540	**Opening capital financing requirement**	**764,157**
	Capital investment	
65,936	Property, plant and equipment	60,870
16	Heritage assets	0
0	Investment properties	0
1,742	Intangible assets	2,197
49	Assets held for sale	56
8,005	Revenue expenditure funded from capital under statute	5,495
3,900	Long-term debtors relating to capital transactions	2,200
0	Acquisition of PFI assets	0
	Sources of finance	
(1,700)	Capital receipts	(2,156)
(48,039)	Government grants and other contributions	(48,079)
	Sums set aside from revenue:	
(124)	Direct revenue contributions	(2,473)
(17,168)	MRP/loans fund principal	(19,272)
764,157	**Closing capital financing requirement**	**762,995**
	Explanation of movements in year:	
(2,547)	Increase/(decrease) in underlying need to borrowing (supported by government financial assistance)	(2,547)
17,727	Increase in underlying need to borrowing (unsupported by government financial assistance)	4,407
(2,563)	Assets acquired under PFI/PPP contracts	(3,021)
12,617	**Increase/(decrease) in capital financing requirement**	**(1,161)**

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.

During 2020/21 the contractor completed a debt re-financing exercise and the Council extracted the associated gain by way of ongoing reductions to the unitary charge payment which are reflected in the projections shown below.

a) Analysis of movements in PFI asset values

31/03/20 £000s Schools	Waste		31/03/21 £000s Schools	Waste
23,807	**45,754**	**Opening values**	**23,671**	**40,660**
11	0	Additions	0	0
474	662	Transfers	2,559	271
0	0	Disposals	0	0
0	(4,026)	Downward Revaluations	(3,116)	0
0	0	Upward revaluations	671	6,045
(621)	(1,999)	Depreciation	(1,407)	(2,166)
23,671	**40,660**	**Closing values**	**22,378**	**44,811**

b) Analysis of movements in PFI liabilities

The following transactions were processed during 2020/21:

31/03/20 £000s Schools	Waste		31/03/21 £000s Schools	Waste
1,446	4,573	Services	1,427	5,192
0	1,371	Lifecycle	0	1,407
904	1,659	Capital repayment	964	2,057
1,461	805	Interest	1,401	771
868	257	Contingent rent	928	330
4,679	**8,665**	**Total payment**	**4,720**	**9,757**
(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
1,789	**6,860**	**Net payment**	**1,830**	**7,952**

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

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

31/03/20 £000s Schools	Waste		31/03/21 £000s Schools	Waste
(22,064)	**(39,127)**	**Opening values**	**(21,160)**	**(37,468)**
0	0	Additions	0	0
904	1,659	Repayment of capital	964	2,057
(21,160)	**(37,468)**	**Closing values**	**(20,196)**	**(35,411)**

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	1,028	2,143	1,337	729	2,396	5,392	**13,025**
– between 1 and 5 years	4,837	7,339	4,623	2,513	10,022	24,320	**53,654**
– between 5 and 10 years	8,082	9,025	3,743	2,323	13,597	34,234	**71,004**
– between 10 and 15 years	6,250	9,866	845	1,341	6,554	38,435	**63,291**
– between 15 and 20 years	0	7,037	0	303	0	24,621	**31,961**
– between 20 and 25 years	0	0	0	0	0	0	
	20,197	**35,410**	**10,548**	**7,209**	**32,569**	**127,002**	**232,935**

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:

31/03/20 £000s		31/03/21 £000s
29	Cash held by the Council	39
(20,615)	Bank overdraft - Council	(20,888)
60,461	Short-term deposits - Council	14,027
39,875	**Total Council cash and cash equivalents**	**(6,822)**
8,976	Cash - TGHC	2,027
0	Intra-group cash to be excluded	0
48,851	**Group cash and cash equivalents**	**(4,795)**

The bank overdraft reported is the cash held in the Councils bank account on behalf of other external entities that use the Councils ledger, and timing differences on bank reconciliation.

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 2020 £000s (Restated)			31 March 2021 £000s	
< 1 year	> 1 year		< 1 year	> 1 year
10,601	0	Central government bodies	37,266	0
9,857	0	NHS bodies	14,666	0
10,212	0	Other local authorities	11,296	0
0	0	Other public bodies	0	0
41,598	30,672	Other Entities and Individuals	50,409	28,073
72,268	**30,672**		**113,637**	**28,073**
2,267	0	Debtors - TGHC	1,485	0
(6,230)	0	Intra-group debtors to be excluded	(1,098)	0
68,305	**30,672**	**Group total**	**114,024**	**28,073**

The debtors' balance represents the amount due to the Council from customers or grants outstanding from funding bodies. An impairment allowance of £13.346m 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 (2019/20: £14.318m).

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

The impairment allowance in relation to Council Tax as at 31 March 2021 was estimated as £2.565m (2019/20: £2.025m) whilst the impairment allowance in relation to business rates was estimated as £1.482m (2019/20: £0.627m). These represent the Council's share of the provision for bad debt as the preceptor shares are allocated in proportion to their share.

The past due but not impaired amount for local taxation (council tax and non-domestic rates) can be analysed by age as follows:

31 March 2020 £000s		31 March 2021 £000s
1,001	Less than three months	1,980
1,025	Three to six months	1,857
3,089	Six months to one year	4,193
9,896	More than one year	12,417
15,011		**20,447**

The major items included within Other Entities and Individuals relate to:

Less than one year

- Miscellaneous Debtors £20.7m (£21m 19/20)
- Council Tax arrears (after bad debt provision) £14.1m (£11.5m 19/20)
- HRA Arrears £9.8m (£8.1m 19/20)
- Business Rates arrears (after bad debt provision) £2.3m (£0.8m 19/20)

Greater than one year

- Loan to Keelman Homes Ltd £14.8m (£12.9m 19/20)
- Long term loan note with Newcastle Airport £10.9m (£10.4m 19/20)
- Loan to Gateshead Trading Company £1.3m (£6.2m 19/20)

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 2021/22:

31 March 2020 £000s			31 March 2021 £000s	
< 1 year	> 1 year		< 1 year	> 1 year
(20,279)	0	Central government bodies	(50,063)	0
(1,549)	0	NHS bodies	(2,854)	0
(7,262)	0	Other local authorities	(6,718)	0
0	0	Other public bodies	0	0
(26,677)	(57,467)	Other Entities and Individuals	(22,597)	(54,372)
(55,767)	**(57,467)**		**(82,232)**	**(54,372)**
(12,292)	0	Creditors - TGHC	(4,914)	0
6,230	0	Intra-group creditors to be excluded	1,098	0
(61,829)	**(57,467)**	**Group total**	**(86,048)**	**(54,372)**

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 2020/21 were as follows:

Balance 31/03/20 £000s		Receipts	Payments	New provision	Reversals	**Balance 31/03/21 £000s**
(2,472)	Business rate appeals - provision for refunds following successful appeals	0	1,429	(1,429)	0	(2,472)
(803)	Redundancies - provision for costs associated with known redundancies	0	803	(4,639)	0	(4,639)
(3,275)	**Short-term provisions**	**0**	**2,232**	**(6,068)**	**0**	**(7,111)**
(129)	Airport Expected Credit Loss –in the event all repayments are not made at some time in the future.	0	0	(68)	0	(197)
(1,415)	Term Time Only – provision for the backdating of pay for term-time only employees	0	0	(447)	0	(1,862)
(6,766)	Insurance - provision for costs associated with insurance claims against the Council	(696)	709	(734)	604	(6,883)
(8,310)	**Long-term provisions**	**(696)**	**709**	**(1,249)**	**604**	**(8,942)**
(11,585)	**Total provisions**	**(696)**	**2,941**	**(7,317)**	**604**	**(16,053)**

Closing provisions include the following elements:

Business Rates Appeals: Due to the localisation of Business Rates, which became effective from 1 April 2013, the Council has set aside a provision for any potential liabilities as a result of Business Rate payers' appeals against rateable valuations. The estimate has been calculated by applying historic trend analysis to open appeals lodged with the Valuation Office Agency (VOA) relating to the 2010 list, and historic estimates for likely appeals raised relating to the 2017 list. It is expected that the majority of appeals for the 2005 / 2010 list will be settled by the VOA towards the end of 2021. However, the Council cannot be certain as to when the lodged appeals will be resolved because the timing of resettlement depends on the VOA.

Redundancies: Redundancy costs have been provided for estimated staffing savings required.

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

Newcastle Airport Expected Credit Loss: The Council holds a 13.33% interest in NALAHCL, valued at £8.410m (£7.811m in 2019/20). The shares are not held for trading outside of the LA7.

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially impair the valuation. The spread of COVID-19 across the world towards the end of 2019/20 led to a sudden decline in air travel prompting the value of the shareholding to be impaired.

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

Due to major curtailments in the airport operations as a result of the COVID-19 pandemic the Council has agreed to modify the terms of these loans and has accepted that under the unprecedented circumstances the airport can defer interest repayments for the following two financial years with catch up payments to be made in instalments over a later period. This has resulted in a restatement of the loan value with an adjustment to the modification loss of £0.041m (£0.874m in 2019/20) charged to the financing and investment income and expenditure line of the CIES. Furthermore, the Council looked at several observable factors regarding the robustness of the airport operations going forward resulting in an expected lifetime loss provision of £0.197m (£0.129m in 2019/20) in the event all repayments are not made at some time in the future.

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

Contingent liabilities

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

- The Council entered into a contract with Northumbrian Water, whereby it collected water charges from its tenants on its behalf and was paid a commission. The High Court has found that contracts between LB Southwark and Thames Water and RB Kingston and Thames Water were contracts for the resale of water under which the recovery of commission is limited by law. RB Kingston appealed the decision to the Court of Appeal which was unsuccessful. The key issue in the cases was that the local authorities were acting as a 'customer' in which case they were reselling water services and should have passed savings onto tenants. Whilst there are similarities in the arrangements, the Council has not concluded that its agreement with Northumbrian Water was the same as those cases. Given that the Council has not received any claims in respect of its previous contractual relationship with Northumbrian Water no provision has been made in the accounts at 31 March 2021. The Council has estimated the potential liability from similar claims to be £3.6m to be met from the Housing Revenue Account.

- Following the judgment in SH v Norfolk County Council on 18th December 2020, the High Court determined that Norfolk's charging policy was unlawful in the way severely disabled people were charged for their care services. The judgment is not directly binding on Gateshead Council. However, there is currently other litigation ongoing in relation to this issue. In the event a higher court upholds the principles underlying the Norfolk judgement this could result in a liability to repay past charges for this cohort of people and result in reduced contributions from these service users towards the cost of their care.

25. Employee benefits

Gateshead Council:

Post-employment benefits (pensions)

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

a. Defined contribution plan: Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, which is administered by the Teachers' Pensions Agency (TPA)[5]. It provides teachers with defined benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of member's pensionable salaries.

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

The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the *Schools* line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to teachers' pensions in the year.

[5] See www.teacherspensions.co.uk/

In 2020/21, the Council paid £8.642m to the TPA in respect of teachers' retirement benefits, the rate of pensionable pay was to 23.6% (plus a 0.08% levy) (2019/20 £7.285m and 23.6% plus a 0.08% levy). In addition, the Council is responsible for all pension payments relating to added years it has awarded, together with related increases. In 2020/21, these amounted to £3.576m, representing 7.7% of pensionable pay (£3.592m and 8.1% in 2019/20). The contributions due to be paid in the next financial year are estimated to be of a similar value. The Council is not liable to the scheme for any other entities' obligations under the plan.

b. Defined benefit plan: Tyne and Wear Pension Fund

The Tyne and Wear Pension Fund[6], part of the Local Government Pension Scheme, is administered by South Tyneside Council. This is a funded, defined benefit career-average salary scheme, meaning that the Council and employees pay contributions into the fund calculated at a level estimated to balance the liabilities with investment assets:

- The liabilities of the Tyne and Wear Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates and employee turnover rates, and projections of future earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate.
- The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value (securities at current bid price or professional estimate and property at market value).

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

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

In 2020/21, the Council paid £20.292m (£30.035m in 2019/20) to the Pension Fund in respect of pension contributions, representing 18.9% of pensionable pay (18.2% in 2019/20) and early retirement strain on the fund payments.

The scheme is accrued in accordance with the requirements of International Accounting Standard 19 *Employee Benefits*[7] (IAS 19). This accounts for retirement benefits when they are committed to be given, even if the actual giving is many years into the future. IAS 19 also requires the inclusion of the Council's attributable 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. The Gateshead Housing Company scheme, which forms part of the group total, is undertaken in accordance with the requirements of Financial Reporting Standard 102.

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

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	
	31/03/20 £m	31/03/21 £m	31/03/20 £m	31/03/21 £m
CIES:				
Cost of Services:				
Current service cost	39.12	39.15	0.00	0.00
Past service cost (including curtailments)	1.39	0.71	0.00	0.00
Settlement cost	0.00	0.00	0.00	0.00
Financing and Investment Income and Expenditure:				
Interest on net defined benefit liability/(asset)	11.41	10.02	2.23	1.94
Pension expense charged to Surplus/Deficit on Provision of Services	**51.92**	**49.88**	**2.23**	**1.94**
Pension expense charged to Other Comprehensive Income and Expenditure:				
Re-measurement of net defined benefit liability:				
- Return on plan assets	28.35	(230.36)	0.00	0.00
- Actuarial (gains)/losses due to:				
changes in financial assumptions	(30.38)	310.24	(0.85)	9.48
changes in demographic assumptions	(26.98)	0.00	(2.16)	0.00
liability experience	(37.38)	(16.85)	(2.23)	(1.23)
Total amount charged to Other Comprehensive Income and Expenditure	**(66.39)**	**63.03**	**(5.24)**	**8.25**
Total amount recognised charged to the CIES	**(14.47)**	**112.91**	**(3.01)**	**10.19**

The total amount charged to *Other Comprehensive Income and Expenditure* (funded and unfunded) totalled £112.91m as disclosed in the Comprehensive Income and Expenditure Statement).

Movement in Reserves Charges				
	Funded liabilities		Unfunded liabilities	
	31/03/20 £m	31/03/21 £m	31/03/20 £m	31/03/21 £m
Movement in Reserves Statement				
Reversal of net charges made for retirement benefits in accordance with the Code	21.79	29.25	(3.21)	(3.60)
Actual amount charged against the General Fund for pensions in the year				
Employer contributions payable to the scheme	30.13	20.68		
Retirement benefits payable to pensioners			5.44	5.55

Assets and liabilities in relation to retirement benefits:

Reconciliation of the present value of Fund liabilities (defined benefit obligation)				
	Funded liabilities		Unfunded liabilities	
	2019/20 £m	2020/21 £m	2019/20 £m	2020/21 £m
Opening defined benefit obligation at 1 April	**1,600.71**	**1,544.66**	**95.49**	**87.04**
Current service cost	39.12	39.15	0.00	0.00
Interest expense on defined benefit obligation	37.95	35.11	2.23	1.94
Contributions from employees (Fund participants)	6.49	6.81	0.00	0.00
Re-measurement (gains) and losses:				
- Actuarial (gains)/losses on liabilities:				
financial assumptions	(30.38)	310.24	(0.85)	9.48
demographic assumptions	(26.98)	0.00	(2.16)	0.00
experience	(37.38)	(16.85)	(2.23)	(1.23)
Net decrease in liabilities from disposals (TGHC)	0.00	0.00	0.00	0.00
Net benefits paid out	(46.26)	(44.19)	(5.44)	(5.51)
Past service cost (including curtailments)	1.39	0.71	0.00	0.00
Settlements (liabilities extinguished)	0.00	0.00	0.00	0.00
Closing defined benefit obligation at 31 March	**1,544.66**	**1,875.64**	**87.04**	**91.72**

Reconciliation of fair value of the scheme assets:

Reconciliation of the movements in the fair value of Fund assets				
	Funded liabilities		Unfunded liabilities	
	2019/20 £m	2020/21 £m	2019/20 £m	2020/21 £m
Opening fair value of Fund assets	**1,110.43**	**1,098.98**	**0.00**	**0.00**
Interest income on assets	26.54	25.09	0.00	0.00
Re-measurement gains and (losses) on assets	(28.35)	230.36	0.00	0.00
Employer contributions	30.13	20.67	5.44	5.51
Employee contributions	6.49	6.81	0.00	0.00
Net benefits paid out	(46.26)	(44.19)	(5.44)	(5.51)
Net increase in assets from disposals/acquisitions	0.00	0.00	0.00	0.00
Settlements	0.00	0.00	0.00	0.00
Closing fair value of Fund assets	**1,098.98**	**1,337.72**	**0.00**	**0.00**

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

	2019/20 £m	2020/21 £m
Interest income on assets	26.54	25.09
Re-measurement gain / (loss) on assets	(28.35)	230.36
Actual return on assets	**(1.81)**	**255.45**

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

	31/03/20	31/03/21		
	Total	Quoted	Unquoted	Total
Equity investments	54.8%	48.4%	7.1%	55.5%
Property	9.0%	0%	7.9%	7.9%
Government bonds	4.1%	2.2%	0%	2.2%
Corporate bonds	15.3%	19.8%	0%	19.8%
Cash	2.3%	4%	0%	4%
Other assets	14.5%	4.7%	5.9%	10.6%
	100.0%	**79.1%**	**20.9%**	**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:

	2019/20 £m	2020/21 £m
Funded:		
Fair value of Fund assets	1,098.98	1,337.72
Present value of the unfunded defined benefit obligation - Council	(1,544.66)	(1,875.64)
	(445.68)	(537.92)
Unfunded:		
Present value of the unfunded defined benefit obligation - Council	(87.04)	(91.72)
Asset / (liability) recognised on Balance Sheet	**(532.72)**	**(674.7)**

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 2022 are estimated to be £20.79m. In addition, strain on the fund contributions may be required. It is also expected that the Council will pay £5.51m directly to beneficiaries (unfunded and teachers).

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

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

Actuarial assumptions

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of pensions payable in future years; it is dependent on assumptions such as mortality rates and salary levels. Aon Solutions UK 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 2019 (unfunded benefits: 31 March 2020), adjusted using a roll-forward methodology to allow for the later calculation date.

The valuation of liabilities is based on a complex set of financial assumptions on the discount rate, CPI inflation and pay growth (linked to inflation). This year the actuary has made a change to the approach to setting a discount rate and CPI inflation rate assumptions;

- The discount rate at the last accounting date was based on a dataset of bonds with an average AA rating from the main ratings agencies. This year, the dataset has been expanded to include all bonds rated AA by at least one of the main ratings agencies which is in line with general market practice.
- The accounting standards require the financial assumptions to be determined with regard to market process and inflations assumptions are commonly set by reference to inflation rates into the UK gilts market. However, the UK gilts market is based on Retail Price Inflation (not CPI inflation), so it is necessary to make a judgement on the future expected difference in the RPI and CPI measures (the RPI-CPI 'wedge'). A further judgement is also commonly made on the perceived distortions in the gilts market driven by supply and demand factors, which can over-state market-implied inflation. This is called the Inflation Risk Premium (IRP).

  - **The RPI-CPI 'wedge'** - due to the differences in calculation methods, the RPI measure is generally higher than the CPI measure. The UK statistics Authority has announced a desire to either stop publishing RPI or to align RPI with Consumer Pricing Index, including housing (CPIH). The Chancellor has set out proposals to replace (or align) RPI with CPIH sometime between 2025 and 2030. The Government's response to its consultation was published on 25 November 2020, and strongly implied that RPI will become aligned with CPIH from 2030. There is now an expectation that RPI will be significantly lower post 2030. The actuarial assumptions are a RPI-CPI 'wedge' of 0.8% is used before 2030 and 0.1% after 2030. This compares to an assumption of 0.8% before 2030 and 0.5% after 2030 used in the last accounting date.

- **Allowing for IRP** – the assumptions are that IRP may vary by duration, and in particular is now believed to be higher post 2030. This is because, despite expectations that RPI inflation will be lower post 2030, there is no evidence of a reduction in RPI forward rates immediately following 2030, either in the smoothed rates published by the Bank of England or in the underlying forward rates derived from gilts prices. As there is also no evidence or justification in the market data for a step increase in CPI forward rates from 2030, this suggests a higher IRP exist from 2030. The actuarial assumptions are an IRP of 0.2% is used before 2030 and 0.6% after 2030. This compares to an assumption of 0.2% at the last accounting date.
- Pay growth is derived from adding a margin above the inflation assumption which is consistent with the methodology adopted for in the 2019 Valuation.

Assets and liabilities valuations also take into account the impact of the McCloud / Sergeant judgement that found the transitional arrangements in place when firefighters and judges pensions schemes were reformed were age discriminatory. This judgement is likely to affect all other public sector pension funds which reformed around this time and applied the same transitional arrangements. The approach taken for 2020/21 assumes that the remedy applies to all those in the scheme on 1 April 2012, on retirement or prior withdrawal, and will apply to dependants of those members.

Legislation requires HM Treasury (HMT) and the Scheme Advisory Board (SAB) to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. HM Treasury and the SAB had paused their reviews following the McCloud judgement in the Court of Appeal. These have now been unpaused and HMT Directions are expected to be made over 2021 which will allow the reviews to proceed. It is unlikely the outcome of those reviews will be known in 2021. As such, the assumptions make no allowance for the potential cost of improving members' benefits under these reviews.

The principal assumptions used by the actuaries have been:

	Funded Liabilities		Unfunded Liabilities	
	2019/20	**2020/21**	**2019/20**	**2020/21**
Financial assumptions (% per annum)				
Discount rate for Fund liabilities	2.3%	2.1%	2.3%	2.1%
Rate of inflation - RPI	N/A	N/A	N/A	N/A
Rate of inflation - CPI	2.0%	2.7%	2.0%	2.7%
Rate of increase to pensions in payment	2.0%	2.7%	2.0%	2.7%
Rate of increase to deferred pensions	2.0%	2.7%	N/A	N/A
Rate of general increase in salaries	3.5%	4.2%	N/A	N/A
Mortality assumptions (years)				
Longevity at 65 for current pensioners:				
Men	21.8	21.9	21.8	21.9
Women	25.0	25.1	25.0	25.1
Longevity at 65 for future pensioners (currently aged 45):				
Men	23.5	23.6	N/A	N/A
Women	26.8	26.9	N/A	N/A
Commutation				
2020/21 and 2019/20: 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	
	31/03/20 £m	31/03/21 £m
CIES:		
Cost of Services:		
Current service cost	46.05	46.35
Past service cost (including curtailments)	1.39	0.71
Settlement cost	0.00	0.00
Financing and Investment Income and Expenditure:		
Interest on net defined benefit liability/(asset)	14.72	13.08
Pension expense charged to Surplus/Deficit on Provision of Services	**62.16**	**60.14**
Pension expense charged to Other Comprehensive Income and Expenditure:		
Re-measurement of net defined benefit liability:		
- Return on plan assets	22.75	(207.05)
- Total Actuarial (gains)/losses	(94.36)	260.28
Net decrease in liabilities from disposals (TGHC)		
Total amount charged to Other Comprehensive Income and Expenditure	**(71.61)**	**53.23**
Total amount recognised charged to the CIES	**(9.45)**	**113.37**

The total amount charged to *Other Comprehensive Income and Expenditure* (funded and unfunded) totaled £108.76m (2019.20: GAIN OF £9.45m).

Assets and liabilities in relation to retirement benefits

Reconciliation of the present value of Fund liabilities (defined benefit obligation)		
	Group Total	
	2019/20 £m	2020/21 £m
Opening defined benefit obligation at 1 April	**1,853.62**	**1,793.30**
Current service cost	46.05	46.35
Interest expense on defined benefit obligation	44.10	40.74
Contributions from employees (Fund participants)	7.74	8.10
Re-measurement (gains) and losses:		
- Total actuarial (gains)/losses on liabilities	(105.60)	343.00
Net decrease in liabilities from disposals (TGHC)	0.00	0.00
Net benefits paid out	(54.00)	(53.24)
Past service cost (including curtailments)	1.39	0.71
Settlements (liabilities extinguished)	0.00	0.00
Closing defined benefit obligation at 31 March	**1,793.30**	**2,178.96**

Reconciliation of fair value of the scheme assets:

Reconciliation of the movements in the fair value of Fund assets		
	Group Total	
	2019/20 £m	2020/21 £m
Opening fair value of Fund assets	**1,221.60**	**1,209.88**
Interest income on assets	29.38	27.66
Re-measurement gains and (losses) on assets	(33.95)	253.67
Employer contributions	39.11	29.59
Employee contributions	7.74	8.10
Net benefits paid out	(54.00)	(53.24)
Net increase in assets from disposals/acquisitions	0.00	0.00
Settlements	0.00	0.00
Closing fair value of Fund assets	**1,209.88**	**1,475.66**

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

	2019/20 £m	2020/21 £m
Interest income on assets	29.38	27.67
Re-measurement gain / (loss) on assets	(33.95)	208.70
Actual return on assets	**(4.57)**	**236.37**

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

	31/03/20	31/03/21
	Group Total	Group Total
Equity investments	54.8%	55.5%
Property	9.0%	7.9%
Government bonds	4.1%	2.2%
Corporate bonds	15.3%	19.8%
Cash	2.3%	4.0%
Other assets	14.5%	10.6%
	100.0%	**100.0%**

Scheme history of gains and losses

	2019/20 £m	2020/21 £m
Funded:		
Fair value of Fund assets	1,209.88	1,475.66
Present value of the unfunded defined benefit obligation	(1,706.26)	(2,087.24)
	(496.38)	(611.58)
Unfunded:		
Present value of the unfunded defined benefit obligation	(87.04)	(91.72)
Asset / (liability) recognised on Balance Sheet	**(583.42)**	**(703.30)**

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 2022 are estimated to be £20.76m. In addition, strain on the fund contributions may be required. It is also expected that the Council will pay £5.54m directly to beneficiaries (unfunded and teachers).

The weighted average duration of the defined benefit obligation is 19.9 years for the Council and 25.0 years for TGHC years (19.9 years Council and 25.0 years TGHC in 2019/20). The split of the defined benefit obligation at the last valuation date between the various categories of was as follows:

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

Actuarial assumptions

	Group Total	
	2019/20	2020/21
Financial assumptions (% per annum)		
Discount rate for Fund liabilities	2.3%	2.1%
Rate of inflation - RPI	N/A	N/A
Rate of inflation - CPI	2.0%	2.7%
Rate of increase to pensions in payment	2.0%	2.7%
Rate of increase to deferred pensions	2.0%	2.7%
Rate of general increase in salaries	3.5%	4.2%
Mortality assumptions (years)		
Longevity at 65 for current pensioners:		
Men	21.8	21.9
Women	25.0	25.1
Longevity at 65 for future pensioners (currently aged 45):		
Men	23.5	23.6
Women	26.8	26.9

Commutation
2020/21 and 2019/20: Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 75% of the permitted maximum.

Sensitivity analysis

The results reported for employee benefits are sensitive to the assumptions used. The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2021 and the projected service cost for the year ending 31 March 2022 is set out below:

Funded LGPS benefits	**+0.1%**	**-0.1%**	**+0.1%**	**-0.1%**
	Council	**Council**	**TGHC**	**TGHC**
Discount rate assumption:				
Adjustment to discount rate				
Present value of total obligation (£m)	1,838.13	1,913.15	206.31	216.89
% change in present value of total obligation	-2.0%	2.0%	-2.5%	2.5%
Projected service cost (£m)	53.55	57.26	10.06	10.81
Approximate % change in projected service cost	-3.3%	3.4%	-3.5%	3.7%
Rate of general increase in salaries:				
Adjustment to salary rate increase				
Present value of total obligation (£m)	1,881.27	1,870.01	212.66	210.54
% change in present value of total obligation	0.3%	-0.3%	0.5%	-0.5%
Projected service cost (£m)	55.38	55.38	10.42	10.42
Approximate % change in projected service cost	0.0%	0.0%	0.0%	0.0%
Rate of increase to pensions in payment and deferred pensions assumption and rate of revaluation of pension accounts:				
Adjustment to pension increase rate				
Present value of total obligation (£m)	1,907.53	1,843.75	215.83	207.37
% change in present value of total obligation	1.7%	-1.7%	2.0%	-2.0%
Projected service cost (£m)	57.26	53.55	10.81	10.06
Approximate % change in projected service cost	3.4%	-3.3%	3.7%	-3.5%
Post retirement mortality assumption:				
Adjustment to mortality age rating assumption*				
Present value of total obligation (£m)	1,943.16	1,809.99	219.22	204.19
% change in present value of total obligation	3.6%	-3.5%	3.6%	-3.5%
Projected service cost (£m)	57.39	52.92	10.84	10.00
Approximate % change in projected service cost	4.1%	-4.00%	4.0%	-4.0%

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

Discretionary benefits

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

26. Financial instruments

a. Accounting policies

Financial assets

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

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

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

Financial assets Measured at Amortised Cost

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

However, the Council has made loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

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

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account.

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

Expected Credit Loss Model

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

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

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

The Council has grouped similar loans for assessing loss allowances:

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

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

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

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

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

Amounts arising from Expected Credit Losses

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

Due to major curtailments in the airport operations as a result of the COVID-19 pandemic the Council has agreed to modify the terms of these loans and has accepted that under the unprecedented circumstances the airport can defer interest repayments for the following three and a half years (two years in 2019/20) with catch up payments to be made in instalments over a later period. The Council looked at several observable factors regarding the robustness of the airport operations going forward resulting in an expected credit loss allowance of £0.197m (£0.129m in 2019/20) in the event all repayments are not made or further delayed at some time in the future.

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

Financial Assets Measured at Fair Value through Profit of Loss

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

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

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

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

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

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

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

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

Significant Observable Inputs – Level 3

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

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

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

SCAPE

The Council has a shareholding in SCAPE System Build Ltd (representing 17% of the company's share capital). The shares are carried at a cost of £0.784m and have not been valued, as a fair value cannot be measured reliably. The company was formed in 2005. The Council has no current intention to dispose of the shareholding.

It has been decided to designate the SCAPE equity instrument, as fair value through other comprehensive income under IFRS 9 classifications. This decision protects Council taxpayers from any future movements in the value of these shareholdings until such time as the shares are sold or released.

Financial liabilities

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

discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

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

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 seeks to minimise potential adverse effects on the resources available to fund services. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

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

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

The annual treasury management strategy which incorporates the prudential indicators was approved by Cabinet on 24 March 2020 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2020/21 was set at £880m. This is the maximum limit of external borrowing or other non-current liabilities.
- The Operational Boundary was expected to be £865m. This is the expected level of debt and other non-current liabilities during the year.
- The management of fixed and variable interest rate exposure.
- The maximum and minimum exposures to the maturity structure of debt.
- Risk management is carried out by a central treasury team, under policies approved by the Council in the annual treasury management strategy. The Council provides written principles for overall risk management, as well as written policies (covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

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

Credit risk: Credit risk arises from deposits with banks, building societies, other local authorities and the

government's Debt Management Office[8], as well as credit exposures to the Council's customers. This risk is minimised through the annual investment strategy, which requires that deposits are not placed with financial institutions that fail to meet the agreed minimum credit criteria. The Council uses the creditworthiness service provided by Link Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard & Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

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

The Council's maximum exposure to credit risk in relation to its investments in financial institutions cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2021 that this was likely to crystalise.

As at 31 March 2021, £33.000m, or 37.1%, of the Council's deposits (31 March 2020: £6.000m or 5.6%) were held with financial institutions domiciled outside the UK:

	2019/20		2020/21	
Country of Domicile	**Amount £m**	**%**	**Amount £m**	**%**
Singapore	5.000	4.7	13.000	14.6
Germany	0.000	0.0	5.000	5.6
Australia	1.000	0.9	15.000	16.9
	6.000	**5.6**	**33.000**	**37.1**

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:

2019/20 (Restated)		**2020/21**		
Net value £m		**Gross value £m**	**Impairment value £m**	**Net value £m**
107.445	Deposits with financial institutions	89.024	0.000	89.024
30.672	Non-Current debtors	28.073	0.000	28.073
54.503	Current debtors	98.656	(9.299)	89.357

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 £9.299m (excluding council tax and business rates) is held on the Balance Sheet to provide against the risk of default on debt outstanding (£11.666m in 2019/20). In addition, the Council's Balance Sheet at 31 March 2021 held £91.814m (current) and £59.919m (non-current) relating to gross amounts owed for financial liabilities (£50.096m current and £57.616m non-current in 2019/20), representing amounts owed to customers (excluding HMRC, council tax and business rates); no impairment was required.

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

2019/20 £m	**Rating**	**2020/21 £m**
33.274	AAA	4.124
29.000	AA	0.000
6.000	AA-	30.000
37.171	A+	54.900
2.000	A	0.000
0.000	A-	0.000
107.445	**Total (excluding impaired investments)**	**89.024**

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

Liquidity risk: The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential and treasury indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Treasury Management Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowing from the money markets to cover any day-to-day cash flow need, and the Public Work Loans Board (PWLB) and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992[9], which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments.

At 31 March 2021, all of the Council's deposits were due to mature within 364 days.

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

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

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

Market risk

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

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

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowing will not impact in the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

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

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

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

According to this assessment strategy, at 31 March 2021, if all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

Interest rate sensitivity analysis		
2019/20 £m		**2020/21 £m**
0.269	Increase in interest payable on variable rate borrowing	0.120
(0.241)	Increase in interest receivable on variable rate investments	(0.462)
0.028	**Impact on the (surplus)/deficit on the Provision of Services**	**(0.342)**
(0.000)	Decrease in fair value of fixed rate investment assets	(0.155)
141,548	Decrease in the fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive income and Expenditure)	155.337

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

Price risk: The Council does not generally invest in equity shares or marketable bonds. However, the Council does have shareholdings to the value of £9.194m in 2020/21 (£8.595m in 2019/20) in Newcastle International Airport and SCAPE. Whilst these holdings are generally illiquid, the Council is exposed to gains or losses arising from movements in the price of shares.

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

The shares have all been classified as Fair Value through Other Comprehensive Income, meaning that all movements in price will impact on gains and losses recognised in the Financial Instruments Revaluation Reserve. A general shift of 5% in the price of shares (positive or negative) would thus have resulted in a £0.460m gain or loss being recognised in the Financial Instrument Revaluation Reserve.

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

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:

Financial instrument gains and losses				
2019/20			**2020/21**	
Surplus or Deficit on the Provision of Services £000s	**Other Comprehensive Income and Expenditure £000s**		**Surplus or Deficit on the Provision of Services £000s**	**Other Comprehensive Income and Expenditure £000s**
		Net gains/losses on:		
0	3,882	Financial assets measured at fair value through profit and loss	0	(599)
(14)	0	Financial assets measured at amortised costs	(14)	0
0	0	Investments in equity instruments designated at fair value though other comprehensive income	0	0
(14)	3,882	**Total net (gains)/losses**	(14)	(599)
		Interest Revenue:		
(2,604)	0	Financial assets measured at amortised costs	(1,315)	0
(2,604)	0	**Total interest revenue**	(1,315)	0
24,302	0	**Interest Expense**	24,081	0
21,684	**3,882**	**Total**	**22,752**	**(599)**

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 non-current and current and debt maturity:

	Current		Non-current	
	31/3/20 £000s	31/3/21 £000s	31/3/20 £000s	31/3/21 £000s
Financial liabilities at amortised cost	(66,586)	(44,375)	(634,184)	(620,072)
Total borrowing	**(66,586)**	**(44,375)**	**(634,184)**	**(620,072)**
Financial Assets at amortised cost	107,605	89,050	0	0
Investments at Fair Value through other Comprehensive Income and Expenditure:				
Unquoted equity investments	0	0	8,595	9,194
Total investments	**107,605**	**89,050**	**8,595**	**9,194**

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

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

Financial Instruments Revaluation Reserve		
2019/20 £000's		**2020/21 £000's**
12,225	**Balance at 1 April**	8.343
	Balance transferred from Available for Sale Financial instrument Reserve	
(3,882)	Downward revaluation of investments	599
8,343	**Balance at 31 March**	**8,942**

Analysis of financial liabilities at amortised cost			
Total outstanding at 31 March 2020 £000s		**Interest rates payable**	**Total outstanding at 31 March 2021 £000s**
	Source of loan		
(645,541)	Public Works Loans Board	1.93% - 13.75%	(611,423)
(55,229)	Other loan instruments	3.60% - 4.52%	(53,023)
(700,770)	**Total financial liabilities at amortised cost**		**(664,446)**
	An analysis of loan by maturity is:		
(66,586)	**Short-term borrowing**		**(44,375)**
(24,112)	Maturing in 1 – 2 years		(1,106)
(30,171)	Maturing in 2 – 5 years		(49,785)
(67,393)	Maturing in 5 – 10 years		(72,869)
(512,508)	Maturing in more than 10 years		(496,311)
(634,184)	**Long-term borrowing**		**(620,071)**
(700,770)	**Total borrowing**		**(664,446)**

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

Except for the financial assets carried at fair value (described under the Accounting Policies Significant Observable Inputs heading above), all other financial liabilities and financial assets are represented by amortised cost and non-current debtors and creditors are carried on the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions: liabilities and financial assets represented by financial assets at amortised cost and non-current 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:

c. For loans from the PWLB payable, PWLB prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures. An additional note to the tables sets out the alternative fair value measurement applying the premature repayment rates, highlighting the impact of the alternative valuation.

d. For non-PWLB loans payable, PWLB prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures;

e. For loans receivable prevailing benchmark market rates have been used to provide the fair value;

f. No early repayment or impairment is recognised; and

g. 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 2021) arising from a commitment to pay interest to lenders above current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £799.844m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

Fair value of assets and liabilities carried at amortised cost				
	31 March 2020		31 March 2021	
	Carrying amount £000s	Fair value £000s	Carrying amount £000s	Fair value £000s
PWLB debt	(645,541)	(778,603)	(611,423)	(799,844)
Non-PWLB debt	(55,229)	(79,986)	(53,023)	(84,410)
Total financial liabilities	**(700,770)**	**(858,589)**	**(664,446)**	**(884,254)**
Market deposits < 1 year	47,144	47,144	75,023	75,023
Market deposits > 1 year	0	0	0	0
Total financial assets	**47,144**	**47,144**	**75,023**	**75,023**

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 2020/21:				
Fixed-term deposits	75,000	0	23	75,023
Impaired investment	0	0	0	0
	75,000	**0**	**23**	**75,023**
Short term deposits (cash equivalents)	14,024	0	3	14,027
Total	**89,024**	**0**	**26**	**89,050**
Short term investments 2019/20:				
Fixed-term deposits	47,000	0	144	47,144
Impaired investment	26	(26)	0	0
	47,026	**(26)**	**144**	**47,144**
Short term deposits (cash equivalents)	60,445	0	16	60,461
Total	**107,471**	**(26)**	**160**	**107,605**

f. Cash Flow Statement

The non-cash changes included in the Cash Flow Statement relating to long and short-term borrowing, any lease liabilities, PFI liabilities and the financing cash flows were made up as follows:

Reconciliation of Liabilities from Financing Activities					
	01-Apr-20	Financing cash flows	Non-cash changes Acquisition	Non-cash changes Other non-cash changes	31-Mar-21
	£'000	£'000	£'000	£'000	£'000
Long Term Borrowings	(634,184)	-	14,112	-	(620,072)
Short Term Borrowings	(66,586)	36,054	(14,112)	269	(44,375)
Lease Liabilities	(194)	156	(41)	(16)	(95)
On balance sheet PFI liabilities	(58,628)	3,021	-	-	(55,607)
Total liabilities from financing activities	**(759,592)**	**39,231**	**(41)**	**253**	**(720,149)**

27. Authorisation of Accounts for issue

The Council and Group's Statement of Accounts for the financial year ended 31 March 2021 will be approved, once audited, by the Accounts Committee and authorised for issue.

Signed:

Date: 30 September 2021

Darren Collins
Strategic Director, Resources and Digital & Borough Treasurer

Signed:

Date: 30 September 2021

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

Housing Revenue Account (HRA)

HRA Income and Expenditure Statement

2019/20 £000s		2020/21 £000s	Note
	Expenditure:		
23,582	Repairs and maintenance	22,512	
15,398	Supervision and management	16,211	
3,669	Special services	3,734	
4,129	Rents, rates, taxes and other charges	3,955	
14,811	Depreciation and revaluation of non-current assets	24,659	4 & 6
66	Debt management charges	62	
672	Increased provision for uncollectable debts	753	
62,327		**71,886**	
	Income:		
(72,196)	Dwelling rents (gross)	(72,244)	
(1,331)	Non-dwelling rents (gross)	(1,266)	
(3,607)	Charges for services and facilities	(3,521)	
(1,195)	Leaseholders charges for services and facilities	(409)	
(846)	Contributions towards expenditure	(872)	
	HRA subsidy receivable		
(79,175)		**(78,312)**	
(16,848)	**Net Cost of HRA Services as included in the Council's Comprehensive Income and Expenditure Statement**	**(6,426)**	
295	HRA services' share of Corporate and Democratic Core	295	
(16,553)	**Net Income for HRA Services**	**(6,131)**	
	HRA share of the operating income and expenditure included in the Council's Comprehensive Income and Expenditure Statement:		
(422)	(Gain) or loss on sale of HRA non-current assets	(298)	
13,355	Interest payable and similar charges	12,580	
(225)	HRA Interest received and investment income	6	
92	Pension interest cost and expected return on pension assets	111	
0	Capital grants and contributions	0	
(3,753)	**(Surplus)/Deficit for the year on HRA services**	**6,268**	

Movement on the HRA Statement

2019/20 £000s		2020/21 £000s	Note
31,553	**Balance on the HRA at 1 April 2020**	**31,035**	
3,753	Surplus / (Deficit) for the year on HRA Income and Expenditure Statement	(6,268)	
(4,271)	Adjustments between accounting basis and funding basis under regulations	6,019	1
(518)	Net increase before transfers to reserves	(249)	
(518)	**Decrease in year on the HRA**	**(249)**	
31,035	**Balance on the HRA at 31 March 2021**	**30,786**	

Notes to the HRA

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

2019/20 £000s		2020/21 £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:	
240	Revaluation of non-current assets	(9,575)
0	Capital grants and contributions	0
0	Accumulated Absences Account adjustment (IAS19)	0
422	Gain/ (loss) on sale of HRA non-current assets	298
(218)	HRA share of contributions to or from the pensions reserve	(271)
0	Revenue expenditure funded from capital under statute (REFCUS)	0
3,827	Capital expenditure funded by the HRA	3,529
(15,051)	Transfer to the Major Repairs Reserve (see Note 7)	(15,083)
15,051	Transfer from the capital adjustment account	15,083
0	Other	0
4,271		(6,019)
	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:	
0	Amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	0
4,271	**Total adjustments between accounting basis and funding basis under the legislative framework**	**(6,019)**

2. Housing stock and Balance Sheet valuation

The number of council dwellings by type and valuation at 31 March 2021 was as follows:

31/03/20	Lettable stock numbers:	31/03/21
10,907	Houses	10,852
4,910	Flats	4,888
3,090	Bungalows	3,093
18,907		**18,833**
£000s	**Values:**	**£000s**
726,122	Council dwellings	715,930
6,220	Other land and buildings	4,184
23	Vehicle, plant, furniture and equipment	0
0	Assets held for sale	0
732,365	**Total Balance Sheet value of land, houses and other property in the HRA**	**720,114**

It should be noted that opening values are presented prior to any revaluations carried out during 2020/21 and taking effect from 1 April 2020.

3. Vacant possession value

The vacant possession value of the HRA dwellings at 1 April 2020 was £1.568bn (£1.604bn 1 April 2019), this illustrates the economic cost to Government of providing council housing at less than open market rents when compared to the EUV-SH valuation £0.729bn (£0.741bn 1 April 2019) at the same date. The EUV-SH reflects the valuation for a property if it was sold with sitting tenants paying rents at less than open market rents and tenant's rights including the right to buy.

4. 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:

2019/20 £000s		2020/21 £000s
14,819	Council dwellings	14,863
209	Other land and buildings	196
23	Vehicles, plant, furniture and equipment	24
15,051	**Total**	**15,083**

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:

2019/20 £000s		2020/21 £000s
	Expenditure:	
17,017	Council dwellings	19,550
3,053	Other land and buildings	1,216
0	Vehicle, plant, furniture and equipment	0
20,070	**Total capital expenditure**	**20,766**
	Funded by:	
0	Borrowing	0
(1,000)	Capital Receipts Reserve	(1,757)
(192)	Capital grants	(397)
(3,827)	Direct revenue financing	(3,529)
(15,051)	Major Repairs Reserve	(15,083)
(20,070)	**Total funding**	**(20,766)**

6. Revaluations

The Council values its dwellings every year using the Existing Use Value for Social Housing basis. During the financial year, the valuation process resulted in a charge to the HRA of £9.575m relating to valuation losses (2019/20: a credit of £0.240m reversing previous losses), as shown below:

2019/20 £000s		2020/21 £000s
	Revaluation losses / (reversals of previous losses) recognised in the HRA Income and Expenditure Statement:	
(4,141)	Council dwellings	9,234
3,901	Other land and buildings	341
	Impairments recognised in the HRA Income and Expenditure Statement:	
0	Council dwellings	0
0	Other land and buildings	0
(240)	**Total**	**9,575**

7. Major Repairs Reserve

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

2019/20 £000s		2020/21 £000s
0	**Opening Balance at 1 April**	**0**
(15,051)	Amounts transferred to MRR during the year:	(15,083)
0	Amounts transferred from the MRR during the year	0
15,051	Capital expenditure on land, houses & other property	15,083
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*:

2019/20 £000s		2020/21 £000s
	Credit:	
(225)	Interest on notional cash balance	6
(240)	Revaluation of non-current assets	9,575
(465)		**9,581**
	Debit:	
13,355	Interest on loans	12,580
15,051	Depreciation	15,083
66	Debt management expenses	62
0	Premiums for early repayment of debt	0
240	Revaluation of non-current assets	(9,575)
28,712		**18,150**
28,247	**Total item 8 debit**	**27,731**

9. Provision for Uncollectable Debts

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

2019/20 £000s		2020/21 £000s
3,843	**Opening Provision for Uncollectable Debts at 1 April**	**4,327**
(188)	Uncollectable debts written off in year:	(287)
672	Additional contributions to uncollectable debts provision in year	753
4,327	**Provision for Uncollectable Debts as at 31 March**	**4,793**

10. Rent Arrears

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

31/03/20 £000s		31/03/21 £000s
5,332	Current Tenants	6,399
2,885	Former Tenants	3,244
8,217	**Total Arrears**	**9,643**

11. Housing Capital Receipts

The total Right to Buy income received at the end of the year is as follows:

2019/20 £000s		2020/21 £000s
5,733	Housing Capital Receipts received during the year	2,841
98	From disposals that took place after 1 April 2012 under Right to Buy	42
5,831	**Total Housing Capital Receipts**	**2,883**

Collection Fund Statement

2019/20 £000s		2020/21 £000s Business rates	Council tax	TOTAL
	Income			
(104,444)	Income from council tax	0	(108,105)	(108,105)
(92,672)	Income from business rates	(39,018)	0	(39,018)
0	Reconciliation adjustments	0	0	0
(197,116)	**Total income**	(39,018)	(108,105)	**(147,123)**
	Expenditure			
	Apportionment of previous year surplus:			
0	Central Government	0	0	0
1,968	Gateshead Council	0	1,620	1,620
129	Tyne and Wear Fire and Rescue Authority	0	76	76
93	Northumbria Police and Crime Commissioner	0	124	124
2,190		**0**	**1,820**	**1,820**
	Precepts, demands and shares:			
41,708	Central Government	43,084	0	43,084
133,035	Gateshead Council	43,181	95,682	138,863
5,121	Tyne and Wear Fire and Rescue Authority	862	7,186	8,048
6,994	Northumbria Police and Crime Commissioner	0	4,405	4,405
1,704	Transitional protection payments payable	296	0	296
188,562		**87,422**	**107,273**	**194,695**
	Less charges to Collection Fund:			
1,850	Write-off of uncollectable amounts	58	479	536
250	Increase / (decrease) in bad debt provision	1,745	602	2,347
0	Increase / (decrease) in provision for appeals	0	0	0
274	Cost of collection	273	0	273
0	Reconciliation adjustments	0	0	0
2,374		**2,076**	**1,081**	**3,156**
(3,990)	**(Surplus)/deficit arising during the year**	**50,480**	**2,068**	**52,548**
(1,973)	**(Surplus)/deficit brought forward 1 April**	**(4,795)**	**(1,166)**	**(5,961)**
(5,963)	**(Surplus)/deficit carried forward 31 March**	**45,685**	**902**	**46,587**
	Attributable to:			
(2,398)	Central Government	22,842	0	22,842
(3,388)	Gateshead Council	22,385	805	23,191
(97)	Tyne and Wear Fire and Rescue Authority	457	36	493
(80)	Northumbria Police and Crime Commissioner	0	60	60
(5,963)		**45,685**	**902**	**46,587**

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).

2019/20		2020/21
50.4p	Multiplier - rate in the pound	51.2p
£221.124m	Total non-domestic rateable value	£221.111m

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	
		2019/20	2020/21	2019/20	2020/21
Band A - Up to £40,000 (disabled reductions)	5/9	107	109	59	61
Band A - Up to £40,000	6/9	35,321	35,509	23,547	23,670
Band B - £40,001 to £52,000	7/9	10,335	10,427	8,038	8,109
Band C - £52,001 to £68,000	8/9	13,486	13,613	11,987	12,099
Band D - £68,001 to £88,000	9/9	5,187	5,202	5,187	5,202
Band E - £88,001 to £120,000	11/9	2,192	2,245	2,679	2,744
Band F - £120,001 to £160,000	13/9	792	799	1,144	1,154
Band G - £160,001 to £320,000	15/9	356	354	593	590
Band H - Over £320,000	18/9	15	16	30	32
		67,791	**68,274**	**53,264**	**53,661**

	2019/20	2020/21
Council tax for a band D property	£1,970.58	£2,044.88

Part 3: Accompanying documents

Annual Governance Statement 2020/21

Approved by Audit and Standards Committee on 21 June 2021

Scope of Responsibility

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

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

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE *Delivering Good Governance in Local Government:Framework*. A copy of the Code is on the Council's website at:

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

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

The Purpose of the Governance Framework

The Governance Framework comprises the systems, processes, culture and values by which the Council is directed and controlled and through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services. Good governance combines robust systems and processes, such as risk management, financial management, performance management and internal controls, with effective leadership based on openness and strong ethical standards to create a culture that underpins the delivery of the Council's strategic approach, Making Gateshead a Place Where Everyone Thrives.

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

The Governance Framework has been in place at the Council for the year ended 31 March 2021 and approval of the Statement of Accounts 2020/21.

The Governance Framework

The Council continually reviews and improves its Governance Framework and during 2020/21, it has been updated to take account of changes to the Council's performance management framework which was being reviewed during the year and will be implemented in 2021/22.

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, including the current and ongoing impacts resulting from the COVID-19 pandemic, which will require effective long term planning to ensure a review of lessons learned, an effective recovery and mitigation of the financial impacts. It is anticipated that the scale and depth of these changes will continue until at least 2022, 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 objectives are set out in the strategic approach, Making Gateshead a Place Where Everyone Thrives, which provides a framework to deliver the priorities of the Council's Thrive policy and Health and Wellbeing Strategy using the three pillars of the Strategic Vision:

- Economic Strategy

- Housing Strategy
- Investment Strategy

alongside interventions and actions required to fulfil the Council's Climate Emergency response and Community Wealth Building.

These priorities are translated by Services into specific aims and objectives. The achievement of these objectives is monitored by individual services and at a strategic level by the Cabinet and Overview and Scrutiny Committees.

The Council has a corporate suite of strategic performance indicators to enable effective monitoring of the Council's strategic approach through which quality of service is measured via strategic outcome indicators. SMG Services and Performance plays a key role in monitoring the Performance Framework before reports are presented to Overview and Scrutiny Committees and Cabinet on a six monthly basis. The Corporate Data Management Group is overseeing the development of an approach to improving how the performance information is presented so that this is accessible to all stakeholders. Performance reports to Overview and Scrutiny are published on the Council's website.

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

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

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

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

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

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

The Council maintains an independent Internal Audit Service. The Internal Audit Service is required to objectively examine, evaluate and report upon the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of the Council's resources. This is achieved through the delivery of a risk based annual audit plan which is agreed by the Audit and Standards Committee and monitored on a quarterly basis. The Chief Internal Auditor also prepares an annual report based on the work of the Internal Audit Service which provides an independent and objective opinion on the Council's control environment based on the work undertaken by the Service throughout the year. During 2019/20, the Internal Audit Service was externally assessed for compliance with Public Sector Internal Audit Standards. The outcome of the assessment was that

the service is substantially compliant with the requirement of PSIAS and the CIPFA Application Note. There were some minor areas for continued improvement identified. All the areas were included in an action plan, progress against which is reported to the Audit and Standards Committee. The results of the assessment were reported to the Audit and Standards Committee in June 2020.

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

A Corporate Partnership Register is maintained which is updated by Strategic/Service Directors in a timely manner and then reviewed on an annual basis. A guidance document is available to Strategic/Service Directors to support the maintenance of the register. Examples of partnerships on the register include the Gateshead Health and Care System, Gateshead Safeguarding Children Partnership, Health and Wellbeing Board and the South Tyne & Wear Waste Management Partnership. A risk assessment model has been developed to assess the strength of each partnership arrangement in respect of governance, financial arrangements, reputation and delivery. The most significant partnerships to the Council have been identified from the Partnership Register and risk assessments have been completed by the relevant Strategic/Service Director for each of these.

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

Following a decision to transfer the housing function to the Council, the Housing Company ceased to exist as a separate entity after 31 March 2021 and all governance and internal control issues will in future form part of the Council's and be assessed within that assurance framework.

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

- Cabinet delegation of Executive decision making by way of Cabinet report presented on 24 March 2020 for a temporary additional delegation be granted to the Chief Executive, all Strategic Directors, and in their absence the relevant Service Director, to deal with executive decisions that would normally be considered by the Cabinet, to minimise the business to be transacted at meetings associated with the Corona virus pandemic. All key decisions taken under these powers were recorded. This arrangement was used until Mid May 2020 and then was superseded once Cabinet meetings were able to be held remotely.
- Community Shielding Hubs continued to coordinate identification of demand and delivery of support.
- Business Impact Assessments were reviewed at two key points in the year, and Business Continuity Plans developed for all critical activities to minimise the risk of interruptions in the delivery of those activities.
- Key decision making meetings with Councillors conducted remotely using virtual conferencing technology.
- COVID-19 Response Team established to coordinate delivery and resourcing of Council COVID related activities including Enforcement, Business Contact, Resident Contact, Contact Tracing, Health Data, Testing and Vaccinations, Procurement, Finance, Governance and Information Routes, Comms, LRF, Excess Deaths, Local Traffic & Pedestrian Management, Events, Free School Meal Provision in Holidays, along with resilience arrangements to mitigate threats to business continuity.

Review of Effectiveness

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

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

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

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

- The opinion of the Members of the Cabinet;
- The work of senior managers within the Council who have responsibility for the development and maintenance of the governance environment;
- An assessment of the Systems of Internal Audit, incorporating a review of the Internal Audit Service and the Audit and Standards Committee, and the Chief Internal Auditor's annual report;
- Corporate Risk Management arrangements;
- The robustness of Performance Management and Data Quality information;
- Views of the external auditor and other external inspectorates;
- Assurance from the Strategic Director, Corporate Services and Governance on the operation of Council's Legal and Regulatory Framework;
- Assurance from the Strategic Director, Resources and Digital on the operation of the Council's financial controls;
- Partnership governance arrangements; and
- Counter fraud and corruption arrangements.

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

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

The Council's Local Code of Governance is reviewed regularly and was last approved by the Audit and Standards Committee on 25 January 2021. Assurance was sought from Councillors who served on the Cabinet during 2020/21, 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 21 June 2021 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 including consideration of relevant assessments to ensure that no aspects of governance were adversely affected by the impact of COVID-19 and where necessary arrangements were put in place to ensure the Council's activities continued to be conducted appropriately, . These included considerations of the effectiveness of internal controls. A report was presented to the Audit and Standards Committee on 21 June 2021 which concluded that, based on the self- assessments, Service Directors agree that effective controls were in place.

The Chief Internal Auditor reports to the Council's Strategic Director, Resources and Digital, but to ensure independence has direct and unfettered access to the Chief Executive, the Strategic Director, Corporate Services and Governance (Monitoring Officer), and the Chair of the Audit and Standards Committee. A review of the effectiveness of Internal Audit, incorporating the Internal Audit Service and the Audit and Standards Committee, has been undertaken and was reported to the Audit and Standards Committee on 21 June 2021. This included an assessment of compliance with the CIPFA Statement on the Role of the Head of Internal Audit (2019) and compliance with Public Sector Internal Audit Standards. This review concluded that the Council's system of internal audit is considered to be effective, which in turn allows the opinion of the Chief Internal Auditor to be relied upon.

The Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control, risk management and governance arrangements which was incorporated in the Annual Internal Audit Report to the Audit and Standards Committee on 21 June 2021. This opinion is based on 50 audit reviews undertaken during the year which found all systems reviewed to be operating well or satisfactorily, except in eight 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 2020/21 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 2020/21, the opinion of the Chief Internal Auditor reported to the Housing Company's Board meeting on 22 June 2021 is that the Company's internal control systems are considered to be effective. This opinion forms part of the Company's report on the Statement of Internal Control to the Board meeting on 22 June 2021.

The Annual Risk Management Report was presented to the Audit and Standards Committee on 21 June 2021 which concluded that risk management arrangements are effective.

The Annual Report on Counter Fraud Arrangements was presented to the Audit and Standards Committee on 21 June 2021 which concluded that counter fraud arrangements are effective.

Regular reports on performance management information and data quality have been considered by Overview and Scrutiny Committees and Cabinet over the course of the year in accordance with the Council's performance management framework. Based on the information provided during the year and internal reviews of data quality, effective controls are in place. In addition, during the year the Council has developed a new Performance Management and Improvement Framework which will be used from 2021/22. This identifies the interventions and strategic and operational measures that will track progress towards achieving the Council's corporate priorities for Thrive and delivery through the Health and Wellbeing Strategy.

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

Assurance on the effectiveness of the Council's legal and regulatory framework has been provided by the Strategic Director, Corporate Services and Governance, who as Monitoring Officer has a legal duty to ensure the lawfulness and fairness of decision-making within the Council. Compliance with established policies, procedures, laws and regulations is ensured by the requirement in the Constitution to give the Chief Executive, the Monitoring Officer and the Chief Finance Officer the opportunity to comment on every committee report submitted to a decision-making body. No areas of significant non-compliance have occurred during 2020/21.

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

Service Directors review partnerships within their Service areas on an annual basis. As partners are key to the delivery of the Council's objectives, assurance of their control and governance systems is required. The corporate guidance on managing partnerships effectively was updated in 2014 and is reviewed on an annual basis. The consensus amongst Service Directors was that all Partnership Arrangements have been established in compliance with the Council's Guide to Partnership Working. In addition, the most recent review of this area by the Internal Audit Service found it to be operating satisfactorily.

A report to Cabinet 24 March 2020 informed on the outcome of the comprehensive review of the delivery model for the Council's housing stock and sought approval to develop a detailed business plan to implement the preferred option – the management and maintenance of the Council's housing stock is re-integrated within the Council. This was to include a review of all services currently provided by TGHC and include relevant Council services to ensure the most efficient and effective delivery model. Following a review during 2020/21 of the most efficient and effective delivery model for managing the Council's housing stock the decision was taken to co-locate the process and the Housing Company was wound up with effect 31 March 2021.

Actions Taken to Improve Governance Following Previous Annual Governance Statement

Governance Issue	Planned Action	Action Taken	Outstanding Matters
Strengthen Council arrangements for oversight and performance monitoring of management of housing stock and housing services to realise Council	Continue to work with the Regulator to give assurance that all areas of non-compliance are progressing in line with the detailed action plan.	In order to facilitate the Council's exit from the Voluntary Undertaking, an independent compliance audit commenced 16th April 2021 as part of the process to provide assurance to the Regulator of Social Housing that Gateshead is sufficiently progressed with a resourced and deliverable action plan that has effective and robust controls in place to return to and maintain compliance. The first data sharing exercise took place on 27th April 2021 and reconciliation of that data is in progress and	None

policies and objectives in relation to the Housing Strategy.	Ensure that an appropriate Governance framework is in place to support both the decision on the future model of delivery and implementation of the chosen model itself.	expected to continue into June 2021. It is anticipated, following receipt of the audit findings, that the Council will be in a position to exit in July 2021. The governance framework following the transfer of the housing function to the Council has been agreed by the Council for the new municipal year 2021/22. This includes monitoring performance of housing-related functions within the Council's refreshed Performance Management Framework reporting to the new Housing, Environment & Healthy Communities OSC (with a new focus on the housing function following transfer of management from TGHC).	
Resilience	A review of lessons learned from the response to COVID-19, including the Council's Constitution to be conducted.	Review of the Constitution commenced in March 2021. Operating procedures were continuously reviewed during the year to ensure they continued to make the best use of finite resources within the COVID operating restrictions. Two reviews of Business Impact Assessments and Business Continuity Plans were conducted during the year to ensure developments in working practices and the operating environment, including COVID impacts were captured and provide assurance on resilience of critical activities.	None

Action Plan for 2021/22

Governance Issue	Planned Action	Responsible Officer
Scrutiny	Online Guide to Gateshead Council to be updated to ensure it continues to reflect the management structure of the Council and the Services provided to assist stakeholder scrutiny an to assist new ways of working.	Strategic Director, Corporate Services and Governance.
Resilience	A review of lessons learned from the response to COVID-19 to be conducted.	Corporate Management Team

Opinion on Governance Arrangements

Based on the review of the Council's governance arrangements during 2020/21, including the internal control and risk management environments, the opinion is that the Council's governance arrangements continue to be regarded as fit for purpose.

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

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

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Standards Committee on 21 June 2021 and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Signed:

Signed:

Councillor Martin Gannon

Leader of the Council

Dated: 21 June 2021

Sheena Ramsey

Chief Executive

Dated: 21 June 2021

Independent Auditor's Report

to the Members of Gateshead Council

Report on the financial statement

Opinion on the financial statements

We have audited the financial statements of Gateshead Metropolitan Borough Council ('the Council') and its subsidiary ('the Group') for the year ended 31 March 2021, which comprise the Council and Group Movement in Reserves Statement, the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Balance Sheet, the Council and Group Cash Flow Statement, the Movement on the Housing Revenue Account Statement, the Housing Revenue Account Income and Expenditure Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council and the Group as at 31st March 2021 and of the Council's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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 and Group 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.

Emphasis of Matter - material uncertainty relating to valuations of land and property and investment property

We draw attention to note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's land and buildings and investment property. As disclosed in note 4 of the financial statements, the Council's Valuers included a 'material valuation uncertainty' declaration within their reports as a result of the Covid-19 pandemic impacting on the relevant market evidence upon which to base their judgements. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the the Strategic Director, Resources and Digital use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Strategic Director, Resources and Digital with respect to going concern are described in the relevant sections of this report.

Other information

The Strategic Director, Resources and Digital 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, Resources and Digital for the financial statements

As explained more fully in the Statement of Responsibilities of the Strategic Director, Resources and Digital, the Strategic Director, Resources and Digital is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view. The Strategic Director, Resources and Digital is also responsible for such internal control as the Strategic Director, Resources and Digital determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Strategic Director, Resources and Digital is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Strategic Director, Resources and Digital is responsible for assessing each year whether or not it is appropriate for the Council and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council and the Group, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government and Housing Act 1989, the Local Government Finance Act 1988 (as amended) and the Local Audit and Accountability Act 2014 (and associated regulations made under section 32), and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Strategic Director, Resources and Digital's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Audit and Standards Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council and the Group which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Audit and Standards Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit and Standards Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Strategic Director, Resources and Digital use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

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.

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

Matter on which we are required to report by exception

We are required to report to you if, in our view, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have not completed our work on the Council's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2021.

We will report the outcome of our work on the Council's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

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

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

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

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed:

- the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack; and
- the work necessary to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

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 assets are assets arising from past events, whereby their existence can only be confirmed by one or more uncertain future events not wholly within the control of the Council.

Contingent liabilities are either**:**

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

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

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

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

Creditors are amounts owed by the Council for goods and services received but where payment has not been made at the end of the financial year (i.e. 31 March). Creditors also include *receipts in advance*, where the Council receives income from external bodies or individuals in advance of service provision (e.g. payment of 2021/22 council tax bill in 2020/21).

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

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

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

which the employees worked.

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

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

Deferred Capital Receipts *see Note 6b.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Instruments Adjustment Account *see Note 6b.*

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

General Fund *see Note 6b.*

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

Part 3: Glossary of Terms

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.

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

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

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

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

Inventories are held on the Balance Sheet in expectation of future use when unused or unconsumed. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises.

Investments are separated into the following categories:

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

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

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

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

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

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

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

Liquid resources are current asset investments that can be readily disposed of by the Council without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

Local Government Pension Scheme (LGPS) is a nationwide public sector pension schemes for employees working in local government. It is administered locally for participating employers through many regional pension funds. The Tyne and Wear Pension Fund manages the Council's pension assets and liabilities[10].

Long-term contract is a contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different 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.

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

Part 3: Glossary of Terms

Major Repairs Reserve *see Note 6b.*

Material or **Materiality**: an item of information is material if its omission or misstatement from the accounts might reasonably affect the assessment of the Council's stewardship, economic decisions or comparison with other entities. Materiality is dependent on the size and nature of the item in question.

Minimum lease payments are payments over lease term that lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:

a) For a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or
b) For a lessor, any residual value guaranteed to the lessor by:
   (i) The lessee;
   (ii) A party related to the lessee; or
   (iii) A third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

Net book value, or carrying amount, is the amount at which non-current assets are included in the Balance Sheet ,i.e. their historical cost or current value less the cumulative amounts provided for depreciation / amortisation.

Net interest on the net defined benefit liability / asset, i.e. net interest expense for the authority: this is the change during the period in the net defined benefit liability / asset that arises from the passage of time charged to *the Financing and Investment Income and Expenditure* line of the *Comprehensive Income and Expenditure Statement*. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability / asset at the beginning of the period - taking into account any changes in the net defined benefit liability / asset during the period as a result of contribution and benefit payments.

Net realisable value is the open market value of an asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred in realising the asset.

Non-current assets are those that yield benefits to the local authority and the services it provides for a period of more than one year.

Operating lease is a lease other than a finance lease.

Operational assets are non-current assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility or for the service or strategic objectives of the Council.

Past service cost, for a defined benefit pension scheme, the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

Pension fund: an employees' pension fund is maintained by an authority, or group of authorities, in order to make pension payments on retirement of participants. It is financed from contributions from the employing authority, the employee and investment income.

Pensions Reserve *see Note 6b.*

Precepts are amounts of council tax collected by the Council and paid to other bodies. The major precepting bodies are *Northumbria Police Authority* and *the Tyne and Wear Fire and Rescue Authority*. Parish precepts are charged separately and only on the area of the parish council concerned. Parish precepts are treated in the accounts as council expenditure.

Private finance initiatives (PFIs) are public / private sector partnerships designed to procure new major capital investment resources for local authorities. They are intended to form a substantial and genuine additional source of funding to local authorities rather than merely being a replacement for existing funding.

Prior period adjustments are material adjustments applicable to prior years arising from changes in accounting policies or from the correction of material errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Provisions are amounts set aside in the accounts for liabilities that are likely to be incurred or assets that are likely to be received but where the amounts or the dates on which they will arise are uncertain.

Prudential borrowing is the current regime for council borrowing; it gives local authorities much more freedom than the previous system in deciding how much they can afford to borrow. All borrowing must remain within the Council's prudential borrowing limits (see Prudential Code), which are agreed annually by committee (Council).

Prudential Code for Capital Finance in Local Authorities is a framework for local authority capital investment introduced through the Local Government Act 2003. The basic principle of the Prudential Code is that local authorities will be free to invest so long as their capital spending plans are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice.

Prudential indicators: to demonstrate that local authorities have fulfilled the objectives of the Prudential Code, prudential indicators must be used. They are designed to support and record local decision making in a manner that is publicly accountable, but are not designed to be comparative performance indicators.

Related parties: A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Section of the Code referred to as the 'reporting entity').

a) A person or a close member of that person's family is related to a reporting entity if that person:

(i) has control or joint control over the reporting entity;

(ii) has significant influence over the reporting entity; or

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

b) An entity is related to a reporting entity if any of the following conditions apply:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;

(vi) The entity is controlled or jointly controlled by a person identified in (a); or

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Related party transaction is a transfer of resources or obligations between a reporting entity and a related party, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the authority or the government of which it forms part.

Remuneration (or allowance) is any consideration or benefit derived directly or indirectly by key management personnel from the Council for services provided in their capacity as elected members or otherwise as employees of the Council.

Reserves are monies set aside by the Council that do not fall within the definition of provisions.

Residual value is the net realisable value of a non-current asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

Retirement benefits are all forms of consideration given by the Council in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either:

(i) an employer's decision to terminate an employee's employment before the normal retirement date; or

(ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

Return on plan assets shows the difference between the actual return and interest income on pension fund assets notionally allocated to the Council (separate to the amount disclosed within Net Interest). It is charged to the Pensions Reserve as *Other Comprehensive Income and Expenditure* excluding amounts included in net interest on the net defined benefit liability / asset.

Revaluation Reserve *see Note 6b.*

Revenue expenditure is incurred on the day-to-day running of the Council; the costs principally include employee expenses, premises costs, supplies and transport.

Revenue expenditure funded from capital under statute: this is expenditure that is legally allowed to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a non-current asset; for example, improvement grants.

Revenue funding is grant funding used to support the revenue expenditure of the Council. It may be 'ringfenced' to specific areas or may be general.

Revenue support grant (RSG) is grant paid by the government towards local services in general, as opposed to specific grants (which may only be used for a specific purpose).

Scheme liabilities (of a defined benefit scheme) are outgoings due after the valuation date. They are measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Settlement (pensions) is an irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

a) A lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;

b) The purchase of an irrevocable annuity contract sufficient to cover vested benefits; and

c) The transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

Special Services cover services to HRA tenants such as cleaning, communal lighting, lifts, communal heating, laundry services, concierge schemes, ground maintenance and welfare services, excluding essential care and other special services.

Strain on the fund: when a member of the LGPS is allowed to retire early (e.g. efficiency, redundancy or with the Council's consent), employee and employer pension contributions stop but benefits become payable earlier than assumed and will be paid for a longer period. To meet the additional cost to the fund, the employer must make additional payments called strain costs.

Support services, or overheads, are those that support the delivery of front line services. Support services include finance, administration, ICT, legal and other central services.

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

Unusable reserves are those reserves that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences. Note 6 provides further information on the individual reserves in this category.

Usable reserves are those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. They can also be described as 'cash-backed'. Note 6 provides further information on the individual reserves in this category.

Useful life, or useful economic life, is the period over which, the local authority will derive benefits from the use of a non-current asset.

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

Contacts

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Leader of the Council:	**Councillor Martin Gannon**
Audit and Standards Committee Chair:	**Councillor Marilyn Charlton**

Web links:

Gateshead Council	www.gateshead.gov.uk
Gateshead Housing Company	www.gatesheadhousing.co.uk
Tyne and Wear Archives and Museums	www.twmuseums.org.uk
Newcastle Airport	www.newcastleairport.com

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