

ACCOUNTS COMMITTEE AGENDA

Monday, 29 September 2014 at 2.00 pm in the Blaydon Room - Civic Centre

From the Chief Executive, Jane Robinson

Item Business

1. Apologies for Absence

2. Minutes (Pages 3 - 4)

The Committee is asked to approve as a correct record the attached minutes of the meeting held on 30 September 2013.

3. Audit Completion Report Year Ended 31 March 2014 and Gateshead Council Statement of Accounts 2013/14 (Pages 5 - 126)

Report of the Strategic Director, Finance and ICT.

Contact: Mike Aynsley email: michaelaynsley@gateshead.gov.uk, Tel: 0191 4332128,
Date: Friday, 19 September 2014

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ACCOUNTS COMMITTEE**30 SEPTEMBER 2013**

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

AC1. MINUTES

The minutes of the last meeting of the Committee held on 28 September 2012 were approved as a correct record and signed by the Chair.

AC2. AUDIT COMPLETION ANNUAL GOVERNANCE REPORT AND GATESHEAD COUNCIL STATEMENT OF ACCOUNTS 2012/13

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

The report's key messages are:

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

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

The Council's 2012/13 Statement of Accounts, amended for any adjustments identified during the audit has been presented. The Statement of Accounts is materially consistent with the revenue and capital outturn reports considered by Cabinet on 25 June 2013. Along with minor adjustments and presentational changes, the following adjustments have been made to the statement submitted for audit on 30 June 2013:

- Internal recharges: these charges between Services are included in the revenue outturn positions but should have been excluded from the Statement of Accounts. As such, the gross expenditure and gross income figures were initially overstated by £18.5m. Amending the Statement of Accounts reduces both income and expenditure, and as such has no effect on the Net Cost of Services.
- Housing Revenue Account charge for Corporate and Democratic Core costs: CDC have previously been borne by the General Fund; however, best practice suggests that they should be shared between the General Fund and the HRA. As such, the Council has made an additional charge of £0.588m to the HRA, reducing the HRA Reserve and increasing the General Fund Reserve by this value.

The internal recharge adjustment does not impact on the revenue and capital outturn positions reported to Cabinet in June 2013. The HRA charge results in a £0.588 million transfer from the HRA to the General Fund that was not included within the report to Cabinet

- RESOLVED -
- (i) That the contents of Mazars' Audit Completion Report Year ended 31 March 2013 and Gateshead Council Statement of Accounts 2012/13 be noted.
 - (ii) That the issue of the Letter of Representation by the Strategic Director, Finance and ICT on behalf of the Council be approved.
 - (iii) That the Council's Statement of Accounts for 2012/13 be approved for publication.

TITLE OF REPORT: **Audit Completion Report Year ended 31 March 2014 and Gateshead Council Statement of Accounts 2013/14**

REPORT OF: **Darren Collins, Strategic Director, Finance & ICT**

Purpose of the Report

1. This report requests that the Accounts Committee:
 - note Mazars' 2013/14 Audit Completion Report (Appendix 2), including the Council's arrangements for securing economy, efficiency and effectiveness;
 - approve the issue of a Letter of Representation (Appendix 3); and
 - approve the publication of the Council's 2013/14 Statement of Accounts (Appendix 4).

Background

2. The annual audit of the Council's Statement of Accounts and use of resources has now been completed for 2013/14 and Mazars LLP has issued its report.
3. The Audit Completion Report covers:
 - the Council's Statement of Accounts; and
 - the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Proposal

4. The proposal is for the Accounts Committee to note the contents of Mazars' Audit Completion Report including arrangements for securing economy, efficiency and effectiveness, approve the issue of the Letter of Representation by the Strategic Director, Finance & ICT on behalf of the Council, and approve the Council's 2013/14 Statement of Accounts for publication.

Recommendations

5. The Accounts Committee is requested to:
 - note the contents of Mazars' Audit Completion Report and the covering report;
 - approve the issue of the Letter of Representation by the Strategic Director, Finance & ICT on behalf of the Council; and
 - approve the Council's 2013/14 Statement of Accounts for publication.

for the following reason(s)

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

CONTACT: Darren Collins, x3582

Policy Context

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

Background

2. Following the announcement of the abolition of the Audit Commission in 2010, the external audit of North Eastern councils was outsourced to Mazars LLP from 2012/13.
3. The annual audit of the Council's 2013/14 Statement of Accounts has now been completed. Mazars LLP is required to:
 - Issue a report to those charged with governance summarising its conclusions from their audit work by 30 September 2014;
 - Report to those charged with governance certain matters before giving its opinion on the financial statements; and
 - Issue a conclusion relating to proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
4. The report covers:
 - The Council's financial statements; and
 - The Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Audit Completion Report

5. Mazars' Audit Completion Report is included as Appendix 2 to this report. The key messages are as follows:
 - Audit Opinion - Mazars has issued an unqualified opinion on the Statement of Accounts, meaning that it is free from material error and has been prepared in accordance with proper practice; and
 - Use of resources – the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
6. The report also includes a Letter of Representation to Mazars, to be approved by the Committee prior to being signed by the Strategic Director, Finance & ICT, attached as Appendix 3.
7. The 2013/14 Statement of Accounts, amended for any adjustments identified during the audit, is shown at Appendix 4. The Statement of Accounts is materially consistent with the 2013/14 revenue and capital outturn reports considered by Cabinet; please note that the Statement also includes additional reserves movements approved in the MTFS review of reserves. Along with minor adjustments and presentational changes, the following adjustments have been made to the Statement submitted for audit on 30 June 2014:
 - **Depreciation:** the depreciation charge was reduced by £1.179m as a depreciation charge had been incorrectly applied to the land component of some of the Council dwellings. There was a corresponding increase to the revenue contribution to capital

expenditure within the HRA to ensure there was no overall impact on the HRA balance;

- **Dwelling valuations:** the capital charges to the Comprehensive Income and Expenditure Statement relating to Council dwellings were reduced by £4.862m as the formula within the asset register had incorrectly excluded the impact of property disposals from the revaluation calculation and had therefore overstated the original valuation movement;
- **Revaluations:** an error in the revaluation gain for three of the Council's assets, primarily the Sage Gateshead, which charged the gain in full to the revaluation reserve rather than being used to reverse a prior year revaluation loss that had previously been charged to the Cost of Services within the Comprehensive Income and Expenditure Statement. A total of £6.850m was moved from Other Comprehensive Income to Cost of Services within the Comprehensive Income and Expenditure Statement.
- **Grants:** two grants, Public Health (£15.401m) and NHS social care contributions (£4.056m) were treated as unringfenced grants; these were reclassified as service-specific grants and moved within the *Cost of Services* within the Comprehensive Income and Expenditure Statement. In addition, an element of the Dedicated Schools Grant (£7.338m income and expenditure) was accounted for twice.
- **Provision for business rates appeals:** £1.656m was reclassified from bad debt provisions (part of the debtors' balance) to short-term provisions on the Balance Sheet.
- **Airport loan notes interest:** £0.664m interest receivable within 12 months was originally included within long-term debtors; it has been revised to be included within short-term debtors.

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

Consultation

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

Alternative Options

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

Implications of Recommended Option

11. **Financial Implications** – The Strategic Director, Finance & ICT confirms that the financial implications are as set out in this report and in the 2013/14 Statement of Accounts.
12. **Risk Management Implication** – no additional risks have been identified in this report or in the completion of the 2013/14 Statement of Accounts.
13. **Human Resources Implications** – There are no human resources implications associated with this proposal.
14. **Equality and Diversity Implications** – There are no equality and diversity implications associated with this proposal.

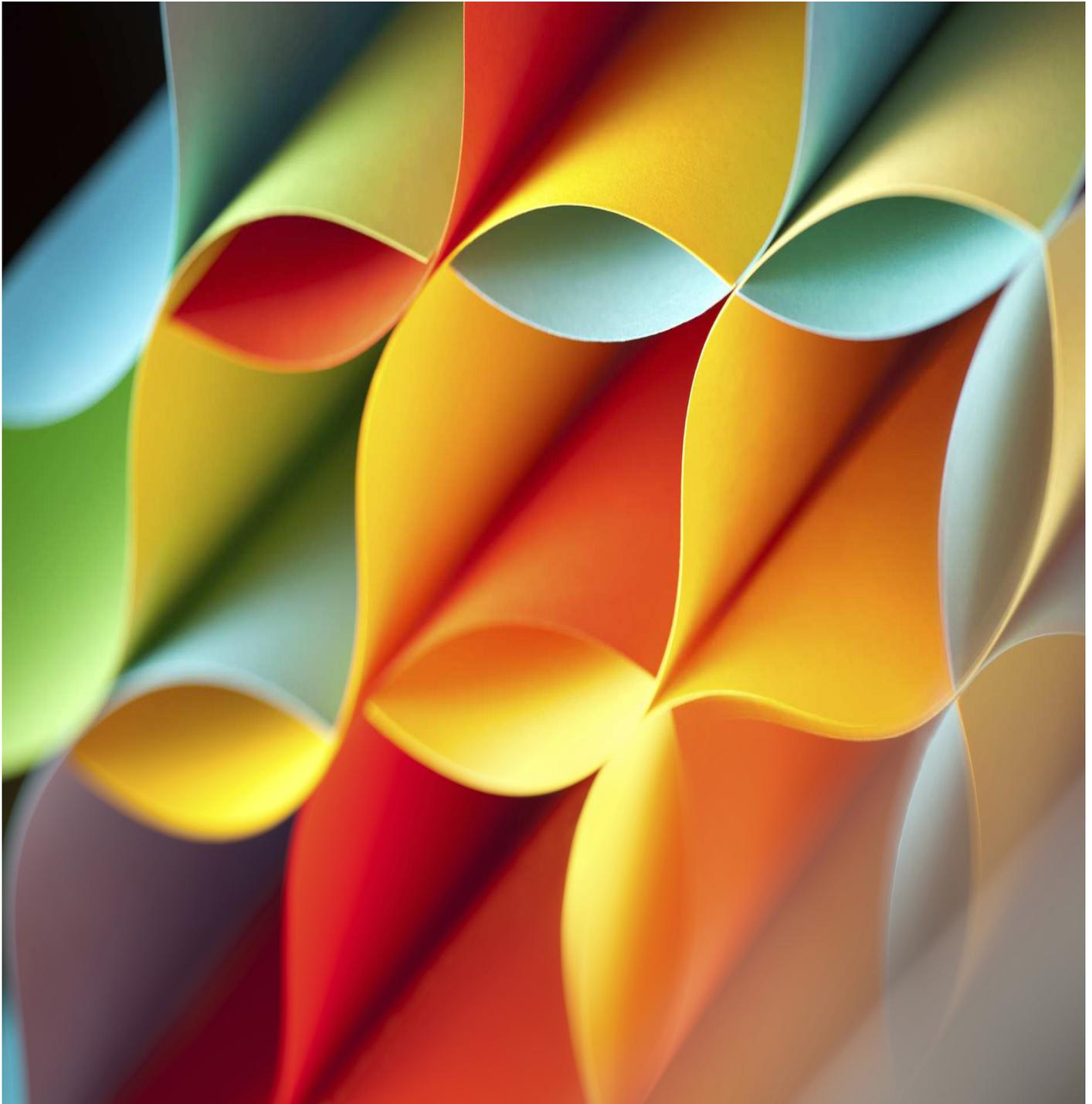
15. **Crime and Disorder Implications** – There are no crime and disorder implications associated with this proposal.
16. **Sustainability Implications** – There are no sustainability implications associated with this proposal.
17. **Health Implications** - There are no health implications associated with this proposal.
18. **Human Rights Implications** – There are no human rights implications associated with this proposal.
19. **Area and Ward Implications** – There are no area and ward implications associated with this proposal.

Audit Completion Report

Gateshead Council – year ended 31 March 2014

25 September 2014

APPENDIX 2



Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

The Accounts Committee and the Audit & Standards Committee
Gateshead Council
Civic Centre
Regent Street
Gateshead NE8 1HH

25 September 2014

Dear Committee Members

Audit Completion Report – Year ended 31 March 2014

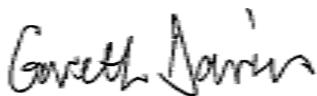
We are delighted to present our Audit Completion Report for the year ended 31 March 2014. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and areas of management judgement was outlined in our Audit Strategy Memorandum which we presented to the Audit Committee on 28 April 2014. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and areas of management judgement remain appropriate.

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

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

Yours faithfully



Gareth Davies

Mazars LLP

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Our reports are prepared in the context of the Audit Commission’s ‘Statement of responsibilities of auditors and audited bodies’. Reports and letters prepared by appointed auditors and addressed to Non-Executive Directors, Directors or managers are prepared for the sole use of the audited body and we take no responsibility to any Non-Executive Director, Director or Manager in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales

01 Executive summary

Purpose of this document

This document has been prepared to communicate the findings of our audit for the year ended 31 March 2014 to the Accounts Committee and the Audit and Standards Committee of Gateshead Council and forms the basis for discussion at the Accounts Committee meeting on 29 September 2014.

Our communication with you is important to:

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

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

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

Status and audit opinion

We have substantially completed our audit of the financial statements for the year ended 31 March 2014.

At the time of preparing this report, there are no significant matters outstanding

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

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

We also anticipate completing our work in respect of your Whole of Government Accounts submission in line with the group instructions issued by the National Audit Office by the deadline of 3 October 2014.

Our proposed audit report is set out in Appendix B.

02 Significant findings

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

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

Significant risks and key areas of management judgement

Management override of controls

Description of the risk

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

How we addressed this risk

We addressed this risk through performing audit work over:

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

Audit conclusion

The most significant estimates included in the financial statements relate to pension liabilities (separate risk below) and property valuations (management judgment area reported below). Both are based on information provided to the Council by experts in their field, and we did not identify any issues with estimates made. Our work on other estimates did not indicate any issues.

We did not identify any significant transactions outside the normal course of business.

Our testing of journals and other adjustments did not identify any inappropriate adjustments made to the financial statements.

Revenue and expenditure recognition

Description of the risk

There is a risk of fraud in the financial reporting relating to revenue and expenditure recognition due to the potential to inappropriately record revenue and expenditure in the wrong period. As a result, we consider it to be a significant risk on all audits.

How we addressed this risk

We addressed this risk through performing audit work over cash receipts and payments in the months of March and April 2014 and their treatment in the financial statements.

Audit conclusion

Our work did not identify any instances of transactions being recorded in the wrong financial year.

Pension liability

Description of the risk

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

How we addressed this risk

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

We liaised with the pension scheme auditor, in line with Audit Commission requirements.

Audit conclusion

Our work confirmed that the financial statements reflect the information the Actuary provided.

The pension scheme auditor did not report to us any issues which impact on our opinion.

Property, plant and equipment

Description of the area of management judgement

Valuations of these assets, in particular of land and buildings, require work from an expert valuer. Valuations of buildings must reflect both the condition of the building but also the valuation basis for that class of building as required by the CIPFA 'code'

How we addressed this area of management judgement

We examined the professional qualifications of and assumptions used by your valuer in making valuations, ensuring that these have been done on the correct basis for each item. We assessed whether the report produced by the valuer has been correctly reflected in the accounts.

We considered valuation trends.

Audit conclusion

Our work concluded that the valuer is appropriately qualified and followed an appropriate approach in completing the valuation. The financial statements accurately reflect the valuer's report. The valuations are not out of line with trends.

Accounting policies and disclosures

We have reviewed Gateshead Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting. Appropriate prior period adjustments were made to reflect changes required by the Code in pension accounting.

Significant difficulties during the audit

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

03 Internal control recommendations

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

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

We have no findings and recommendations to report.

Follow up of previous internal control points

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

04 Summary of misstatements

We set out on the next page the misstatements identified during the course of the audit, above the trivial level, for adjustment. There are no errors above the trivial level which management has not agreed to adjust.

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

Adjusted misstatements 2013/14

	CIES		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
1 Dr property, plant and equipment			6,041	
Cr Cultural and related services expenditure		6,464		
Cr HRA expenditure		1,179		
Cr Children's and education services expenditure		385		
Cr HRA asset revaluation		4,600		
Dr Surplus on revaluation on non current assets	6,355			
Dr Other operating expenditure	232			
Various, mainly error in depreciating land, incorrectly grossing up valuations to include disposals and charging a revaluation gain to revaluation reserve rather than reversing a previous revaluation loss in the CIES. This impacts on a number of notes and the Revaluation Reserve and Capital Adjustment Account				
2 Dr Taxation and non specific grant income	15,401			
Cr Public health income		15,401		
Specific grant shown as general				
3 Dr Children's and education services income	7,338			
Cr Children and education services expenditure		7,338		
Dedicated schools grant grossed up in error				
4 Dr Debtors			664	
Cr Long term debtors				664
Interest due treated as long rather than short term				
5 Dr Debtors			1,656	
Cr Provisions				1,656
Estimated cost of business rate appeals treated as bad debt rather than provision				
6 Dr Taxation and non specific grant income	4056			
Cr Adult social care		4056		
Grant for specific purposes included as a general grant				
7 Dr Short term debtors			883	
Cr Short term creditors				883
Two credit balances included in debtors				
Total adjusted misstatements	33,382	39,423	9,244	3,203

Disclosure amendments

We identified significant amendments to disclosures:

- Note 9 councillors allowances updated to exclude NI;
- Note 13 operating leases amended to reflect value of payments by year rather than lease expiry dates;
- Note 14 updated to include Director of Public Health and update bandings;
- additional related party information added to Note 15;
- Note 17 amended to provide additional information and correct descriptions;
- Note 26 financial instruments updated to include relevant creditors and other minor amendments;
- HRA notes updated; and
- classification of debtors and creditors amended in Notes 22 and 23.

05 Value for money

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

In the Audit Strategy Memorandum we identified significant risks relevant to the value for money conclusion. We detail below how we have addressed these risks and our conclusions.

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

Financial resilience

Description of the risk

The Council is facing continuing financial pressures from reduced funding, increased demand and changing responsibilities. The Council is responding to the challenges by a programme of efficiencies, service reviews and developing new ways to deliver services. Should these measures not be effective, the Council's financial resilience will deteriorate as reserves are used to support on-going expenditure.

How we addressed this risk

We reviewed:

- monitoring and action plans for a sample of savings included in the budget;
- how public health staff have been integrated and how allocated public health funding has been used; and
- financial planning supporting the development of the District Energy Scheme.

Conclusion

Our review showed that:

- the Council continues to face significant financial challenges, as central government funding is reduced and there is pressure to maintain council tax at existing levels. These challenges are well understood, and savings plans are in place and monitored. In 2013/14 the Council achieved its overall budget with a £4.5m underspend, allowing reserves to increase to support future spending. Savings plans for 2014/15 are in place and work is ongoing to identify the requisite 2015/16 savings, as part of its rolling two year plan. In the current financial climate, with the need for further savings very likely, the Council should consider longer term financial planning (for example five years rather than the current three years included in its Medium Term Financial Strategy), and aim to have firm savings plans for the following financial year in place earlier. This has been recognised, and work is well underway on 2015/16 plans;
- public health staff have transferred to the Council and funding has been used as planned. This is separately disclosed in the financial statements, as required; and
- we did not identify any issues with the financial planning in support of the District Energy Scheme, at this early stage.

Appendix A – Draft management representation letter

To be provided to us on client headed note paper

Gateshead Council
Civic Centre
Regent Street
Gateshead
NE8 1HH

[Date]

Dear Sirs

Gateshead Council - audit for year ended 31 March 2014

This representation letter is provided in connection with your audit of the statement of accounts for Gateshead Council for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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

My responsibility for the statement of accounts and accounting information

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

My responsibility to provide and disclose relevant information

I have provided you with:

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

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

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

Accounting records

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

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and International

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

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at fair value, are reasonable and that no subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.

Contingencies

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

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

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

There are no contingent gains which should be disclosed.

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

Laws and regulations

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

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

Fraud and error

I acknowledge my responsibility as Strategic Director, Finance and ICT for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

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

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

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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

Impairment review

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

Future commitments

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

Subsequent events

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

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

Yours faithfully

Strategic Director, Finance and ICT

Appendix B – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GATESHEAD COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Gateshead Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of Gateshead Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Strategic Director, Finance and ICT and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Gateshead Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Opinion on other matters

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

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or

- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that, in all significant respects, Gateshead Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Certificate

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

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

xx September 2014

Appendix C – Independence

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

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

The level of additional fee we have agreed is small in comparison to the audit fee, and the work does not involve any threat to our independence. The work involved is:

- review of Internal Audit. We will assess Internal Audit's self assessment against the Public Sector Internal Audit Standards, highlighted any area where arrangements or practices do not comply: and
- certification of grant claims (ERDF and health agreements).

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Mazars LLP
Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

Date: 29 September 2014

Dear Sirs

Gateshead Council - audit for the year ended 31 March 2014

This representation letter is provided in connection with your audit of the statement of accounts for Gateshead Council for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the statement of accounts gives a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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

My responsibility for the statement of accounts and accounting information

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

My responsibility to provide and disclose relevant information

I have provided you with:

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

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

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

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All

other records and related information, including minutes of all Cabinet and Committee meetings, have been made available to you.

Accounting policies

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

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at fair value, are reasonable and that no subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.

Contingencies

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

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

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

There are no contingent gains which should be disclosed.

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

Laws and regulations

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

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

Fraud and error

I acknowledge my responsibility as Strategic Director, Finance and ICT for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

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

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

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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

Impairment review

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

Future commitments

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

Subsequent events

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

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

Yours faithfully

Darren Collins
Strategic Director, Finance & ICT
29 September 2014

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GATESHEAD

COUNCIL



STATEMENT OF ACCOUNTS 2013/14

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Part 1

Explanatory Foreword

The Statement of Accounts¹ is set out on pages 16 to 74. The Statement covers the financial year from 1 April 2013 to 31 March 2014, with comparative figures included for previous periods where appropriate.

Introduction

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

The Statement of Accounts which follows presents the Council's financial performance for 2013/14, 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 IFRS² based Code of Practice on Local Authority Accounting in the United Kingdom (the Code), developed by the CIPFA³/LASAAC⁴ Board and approved by FRAB⁵. The Code constitutes proper accounting practice⁶.

When read in conjunction with the Council's Annual Report⁷, the publications provide an insight into the many activities and achievements of the Council during the year.

The Statement of Accounts

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

Statement of Responsibilities (Page 15)

This explains both the Council's and the Strategic Director, Finance & ICT's responsibilities in respect of the Statement of Accounts.

Core Financial Statements (pages 16 to 68):

Movement in Reserves Statement (Page 16)

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

Comprehensive Income and Expenditure Statement (Page 18)

This statement 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.

¹ Note that this is the single entity Statement of Accounts; the Council does not prepare Group Accounts at present

² International Financial Reporting Standards

³ The Chartered Institute of Public Finance and Accountancy

⁴ CIPFA's Local Authority (Scotland) Accounts Advisory Committee

⁵ Financial Reporting Advisory Board, an independent board within HM Treasury

⁶ Under the terms of the [Accounts and Audit \(England\) Regulations 2011](#) & the [Local Government and Housing Act 1989](#)

⁷ See www.gateshead.gov.uk/Council%20and%20Democracy/PerformanceThemes/OurPerformanceReports.aspx

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

Balance Sheet (Page 19)

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

Cash Flow Statement (Page 20)

This summarises the cash and cash equivalent receipts and payments of the Council arising from transactions with third parties.

Notes to the Core Financial Statements (Page 22)

The notes provide additional information for significant items to support the core statements above.

Supplementary Financial Statements (pages 69 to 74):

Housing Revenue Account (HRA)

- **HRA Income and Expenditure Statement (Page 69)**
This account deals with 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 (Page 70)**
This shows how the HRA Income and Expenditure Statement surplus or deficit for the year reconciles to the movement in the HRA balance for the year.
- **Notes to the Housing Revenue Account (Page 70)**
The notes provide additional information to support the HRA statements.

Collection Fund

- **The Collection Fund Statement (Page 73)**
The Council is required⁸ to maintain a Collection Fund, which shows the transactions of the Council in relation to national non domestic rates and council tax and illustrates the way in which these have been distributed to preceptors and the General Fund.
- **Notes to the Collection Fund Statement (Page 74)**
These provide additional information to support the Collection Fund Statement.

Documents Supporting the Statement of Accounts

Annual Governance Statement (Page 75)

This statement, required by regulations⁹ to accompany the Statement of Accounts, outlines the Council's approach to corporate governance and internal control.

Independent Auditor's Report (Page 81)

This report details the basis of the external auditor's opinion on the Statement of Accounts.

Glossary of Terms (Page 84)

This section includes a description of the key terms used in the Statement of Accounts, along with explanations of any technical terms.

⁸ In accordance with section 89 of the [Local Government Finance Act 1988](#) (as amended in 1992)

⁹ Paragraph 4(4)(a) of [Accounts and Audit \(England\) Regulations 2011](#)

Summary of the Financial Year

The Council classifies its expenditure and income as:

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

or

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

The following sections discuss the Council's revenue and capital expenditure and income during 2013/14.

Revenue Income and Expenditure Summary

The following section offers a summary of the income and expenditure presented within the Movement in Reserves Statement (page 16), the Comprehensive Income and Expenditure Statement (page 18) and the Housing Revenue Account (HRA) statements (page 69). The information reconciles to the net movement in the General Fund and HRA reserves, presented here in a consolidated form for illustrative purposes.

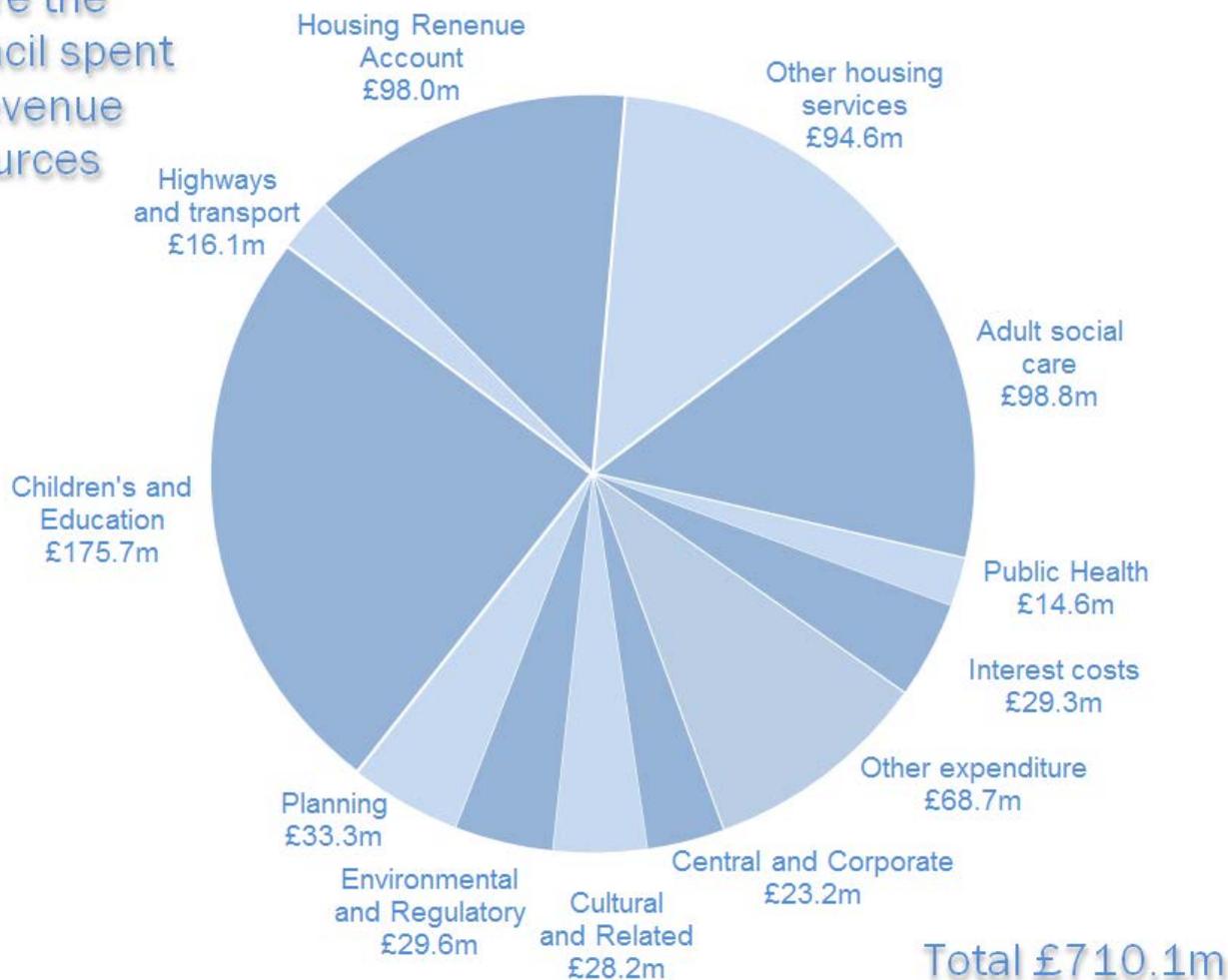
Total expenditure in 2013/14 was £729.8m, which includes both General Fund services and the HRA. This was funded by income and earmarked reserves of £728.9m, the deficit for the year, £0.9m, is reflected as an overall decrease in the reserves below:

	Opening Balance £000s	2013/14 Movement £000s	Closing Balance £000s
General Fund - General Reserve	(16,477)	1,593	(14,884)
General Fund - Schools / LMS Reserve	(7,334)	(752)	(8,086)
HRA Reserve	(18,053)	45	(18,008)
	(41,864)	886	(40,978)

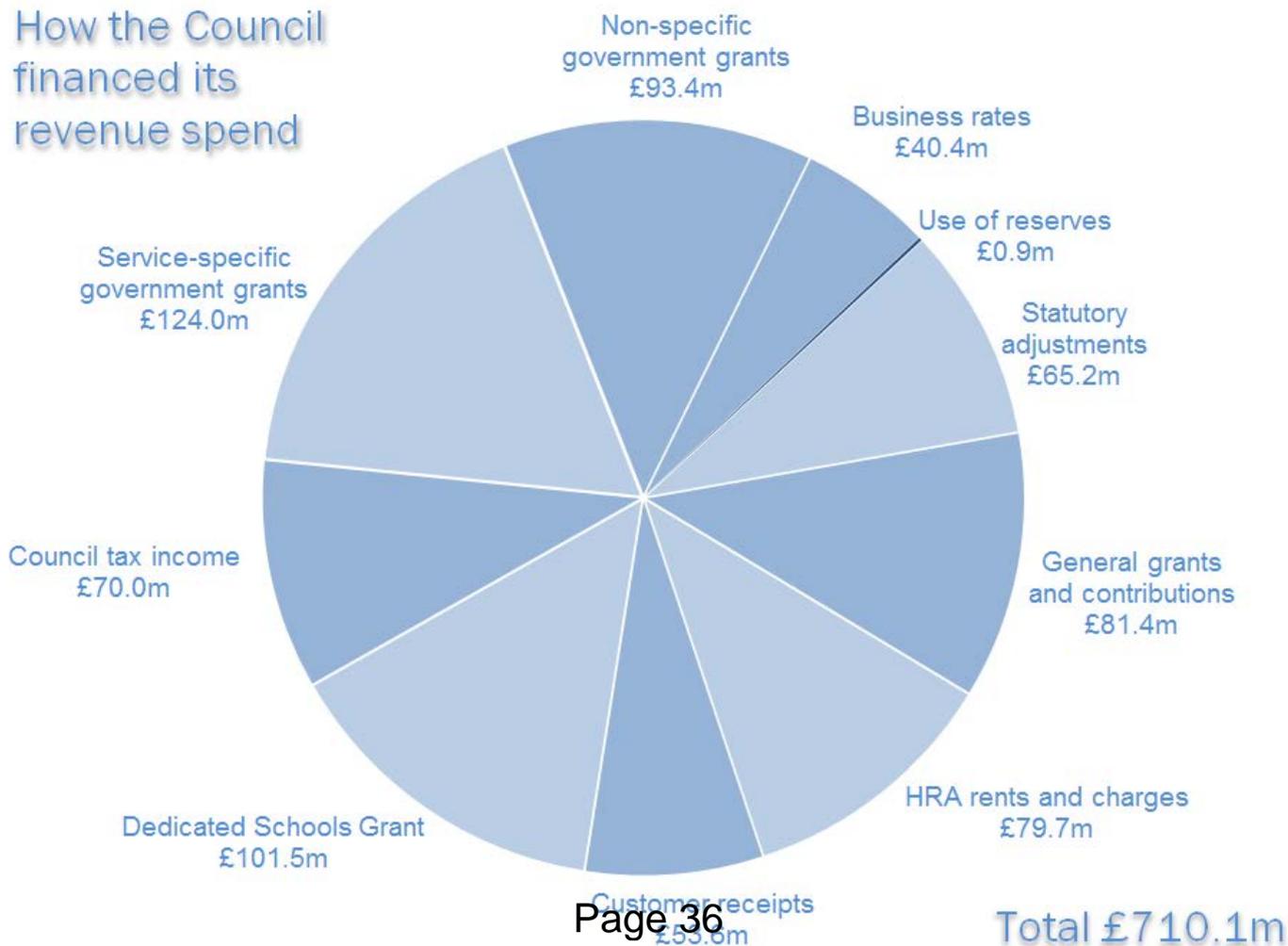
The movement in the General Reserve includes the revenue outturn surplus of (£3.703m) and the MTFS *Review of Reserves* adjustments of £5.296m.

The following charts show the services on which money was spent and how it was funded:

Where the Council spent its revenue resources



How the Council financed its revenue spend



Position against Budget

The previous section summarised the Council's spend as detailed in the Comprehensive Income and Expenditure Statement (page 18). However, the Council's Budget is prepared on a different basis to the Statement of Accounts (which must comply with international accounting rules). The following section presents the Revenue Outturn position against Budget¹⁰ as reported internally to management and councillors. The main measure of the Council's financial performance is the movement in the General Reserve.

The following shows the Council's spend against Budget for 2013/14¹¹:

	Gross Income £000s	Gross Exp. £000s	Net Exp. £000s	Net Budget £000s	Budget Variance £000s
Expenditure					
Learning & Children	(123,764)	159,668	35,904	35,820	84
Community Based Services	(122,268)	218,270	96,002	98,357	(2,355)
Development & Enterprise	(17,510)	24,382	6,872	6,183	689
Local Environmental Services	(35,601)	58,751	23,150	23,408	(258)
Central Services and Other	(17,578)	41,351	23,773	21,778	1,995
Net Service expenditure	(316,721)	502,422	185,701	185,546	155
Capital financing	0	23,819	23,819	27,170	(3,351)
Other operating income/exp.	(1,869)	12,881	11,012	12,333	(1,321)
	(318,590)	539,122	220,532	225,049	(4,517)
Financing					
General grants	(155,355)	0	(155,355)	(154,354)	(1,001)
Council tax / Collection Fund	(69,491)	0	(69,491)	(69,491)	0
Reserves	611	0	611	(1,204)	1,815
	(224,235)	0	(224,235)	(225,049)	814
Use of General Reserve:	(542,825)	539,122	(3,703)	0	(3,703)

General Reserve balance brought forward:	(16,477)
In-year movement:	(3,703)
General Reserve balance carried forward:	(20,180)
MTFS Review of Reserves	5,296
	(14,884)

The key outcomes for the year (excluding schools and HRA) are as follows:

- The Council approved a Budget of £225.049m for 2013/14: the actual position was £220.532m, an underspend of £4.517m on services (primarily relating to grants not budgeted for, lower borrowing costs, airport interest and dividends and recharge to Housing Revenue Account). This is reduced to an under spend of £3.703m after taking into consideration additional funding and movements on the use of earmarked reserves;

¹⁰ Note 8 *Segmental Analysis* (page 29) provides a reconciliation between the revenue outturn position reported internally (£220.532m) and the cost of services in the CIES (£264.548m).

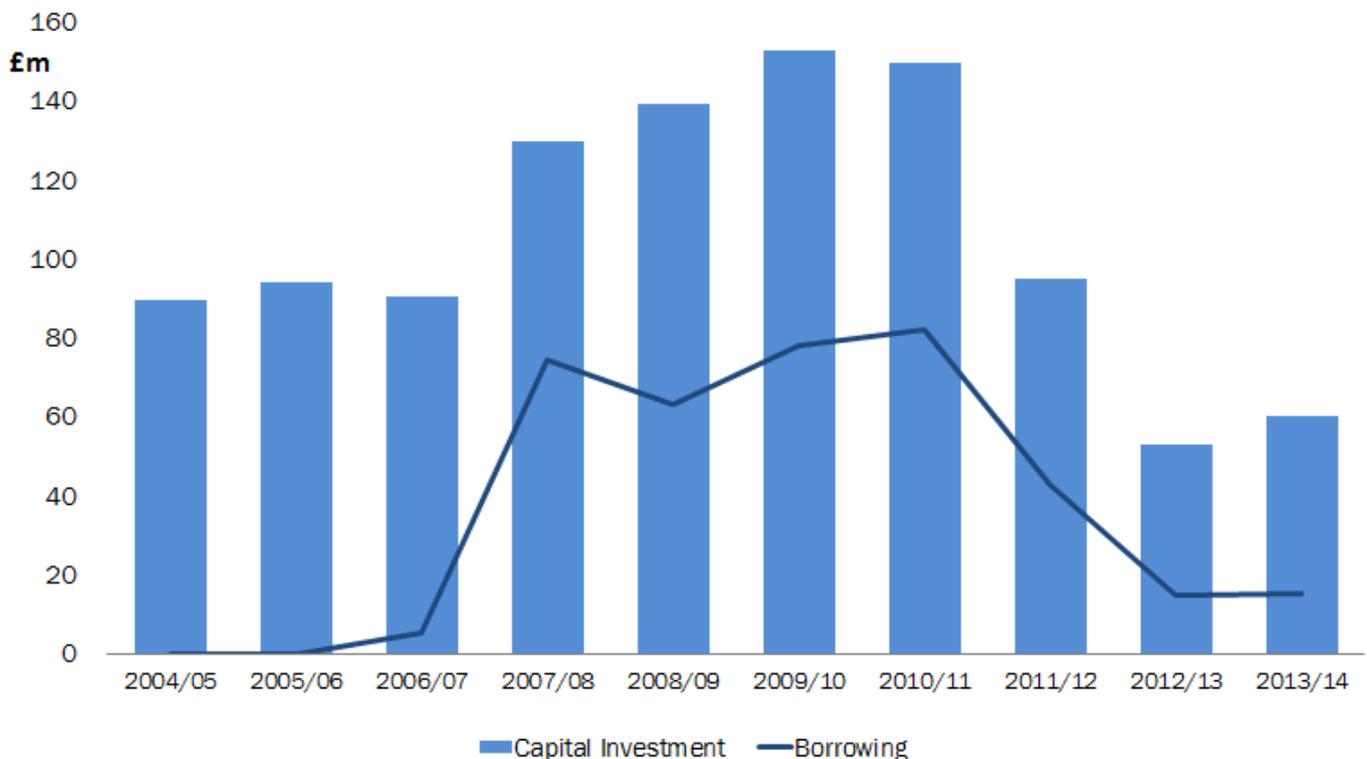
¹¹ Note that this excludes schools and HRA

- As part of the update to the MTFS, a review of reserves was undertaken. As a result of this review, the General Reserve reduced by £5.296m to £14.884m;
- The outturn position includes a provision for housing benefit overpayments bad debt totalling £2.460m and a provision for workforce management totalling £1.659m;
- Council tax has been frozen by the Council since 2010/11 and the Council once again received a council tax freeze grant in 2013/14; and
- The 2013/14 Budget includes savings of £9.471m. The final outturn for achieved savings was £8.570m, a shortfall of £0.901m.

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

Capital Income and Expenditure Summary

The following chart shows the profile of capital spend over the last ten years, indicating the significant changes over the period:



In 2013/14, the Council spent £60.2m on capital schemes (2012/13: £53.0m). The Council's capital investment was focussed on the delivery of Vision 2030. A number of high priority schemes were supported during the year, with particular emphasis on housing, economic growth, energy efficiency and sustainability projects.

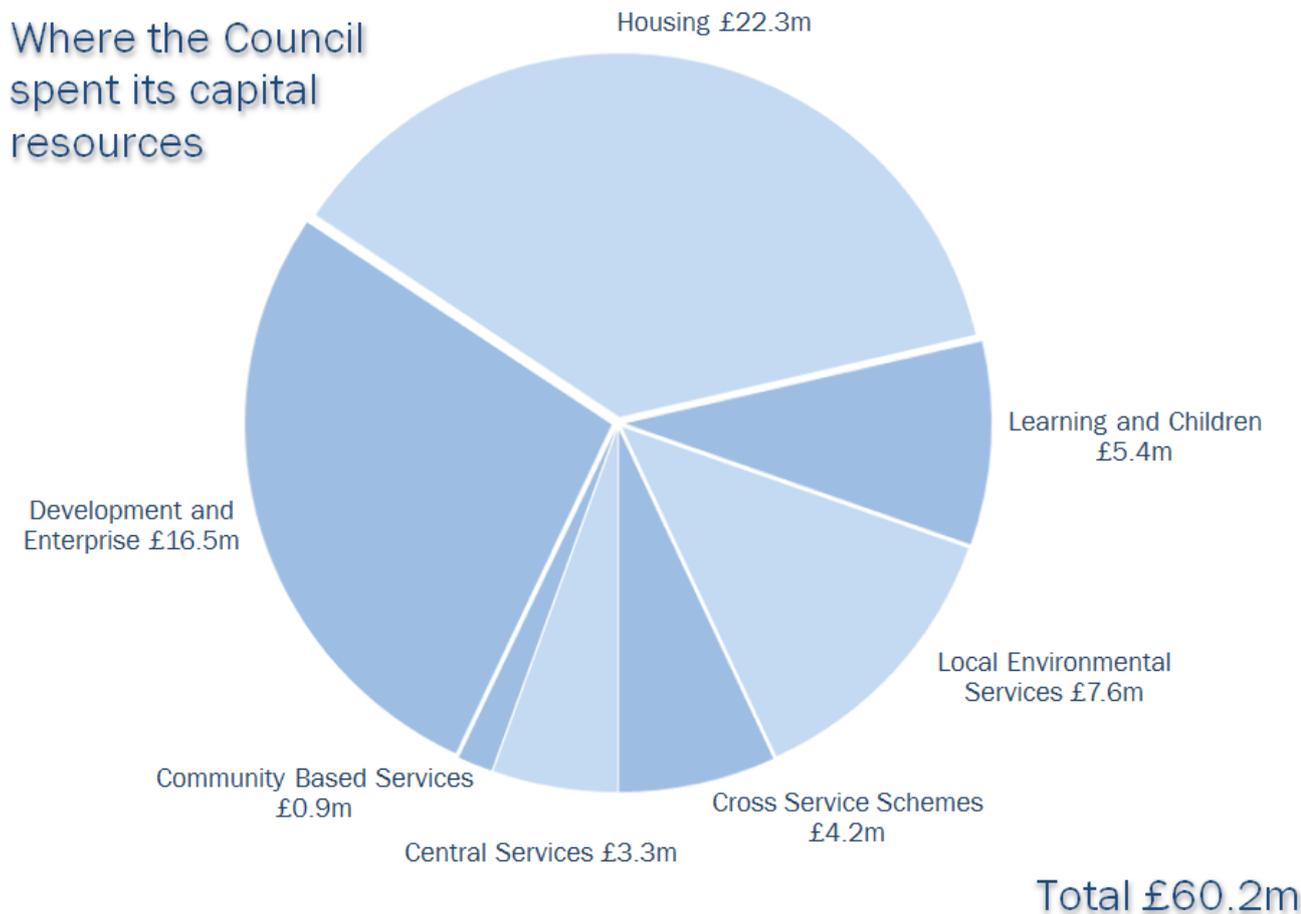
Actual capital expenditure for the year on the Council's non-current assets totalled £55.4m (2012/13: £46.4m). This expenditure was invested in the purchase and improvement of the Council's assets such as housing, schools, roads and waste management infrastructure.

In addition, the Council spent a further £4.8m (2012/13: £4.9m¹²) on schemes where no asset of the Council was created such as the award of disabled facilities grants to individuals, investment to bring empty properties back into use, works to voluntary aided schools, academies and trust-owned properties.

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

¹² 2012/13 also included £1.7m of other activities, such as the provision of loans and acquisition of shares

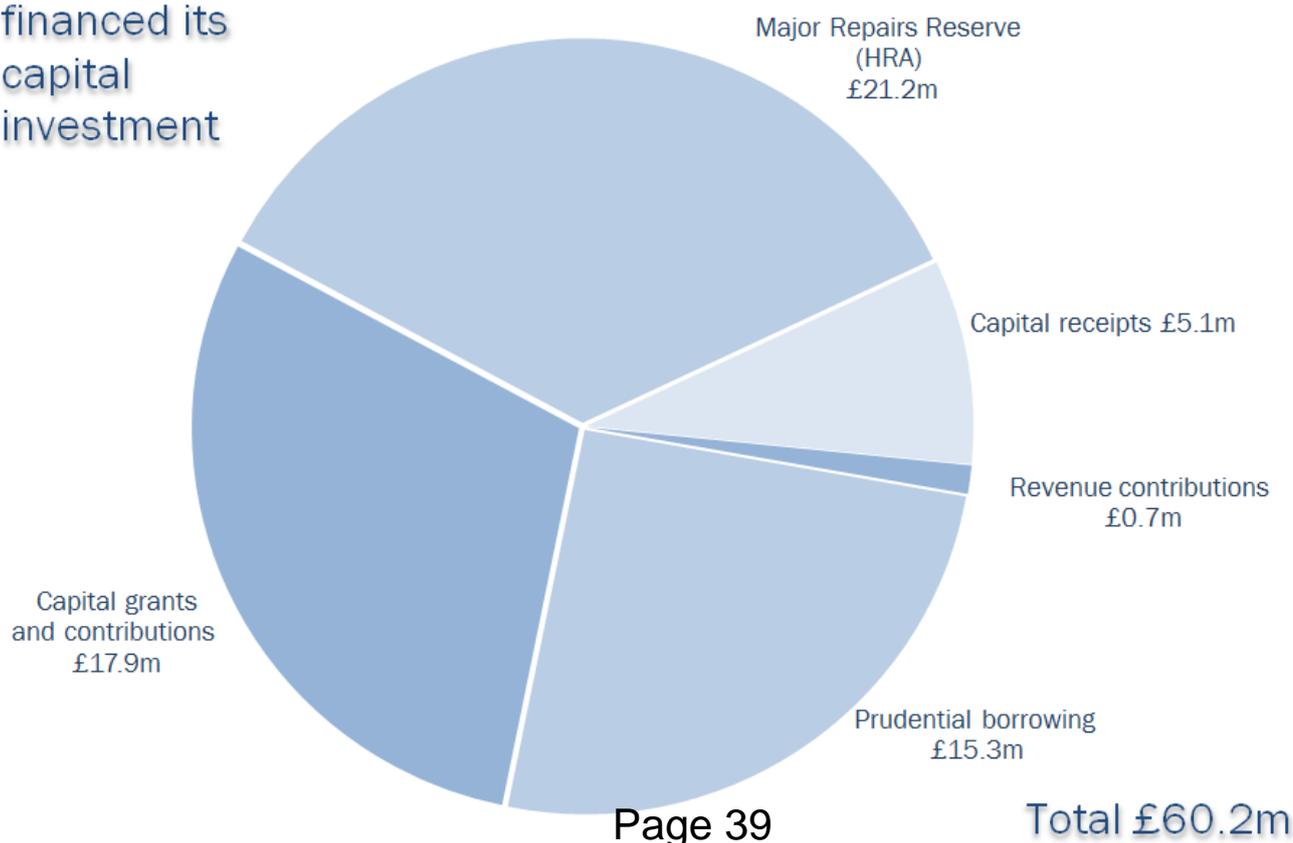
Where the Council spent its capital resources



Total £60.2m

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

How the Council financed its capital investment



Total £60.2m

Further information about the specific capital projects supported by the Council during 2013/14 can be found within the Capital Outturn Report.

Other Key Items in 2013/14

Material Assets and Liabilities: changes in 2013/14

As at 31 March 2014, the Council held £1,287.888m of long-term assets, £113.637m of current assets, £156.004m of current liabilities and £993.359m of long-term liabilities.

Current assets have increased by £32.439m, reflecting the following:

- An increase of £11.433m in short-term investments;
- A £9.973m increase in short-term debtors, some of which is due to fluctuations in council tax and NNDR arrears and changes in bad debt provision levels;
- Increases in the numbers of assets held for sale and inventory levels; and
- A £7.909m increase in cash and cash equivalents (asset element) due to fluctuations in cash balances.

The Council's current liabilities have increased by £54.940m, reflecting the following:

- Cash and cash equivalents (overdrafts) have increased by £6.606m;
- Short-term borrowing has increased by £34.818m, reflecting the maturity profile of borrowing and use of prudential borrowing for the capital programme; and
- An increase of £10.201m in short-term creditors due to fluctuations in the amounts owed by public bodies such as the NHS, and increases in grant receipts in advance.

Long-term assets have reduced by £62.953m, primarily due to reductions in the value of the Council's asset portfolio. This included a £40.754m reduction in the value of housing stock.

Long-term liabilities have fallen by £114.366m, mainly reflecting an £86.960m improvement in actuarial valuations and assumptions in relation to pension liabilities following the triennial review, and a fall in long-term borrowing of £25.433m, reflecting the maturity profile of borrowing.

Workforce Management and Exit Packages

The 2013/14 Statement of Accounts recognises a cost of £5.812m in relation to actual redundancies in 2013/14 and expected redundancies in 2014/15. This includes an estimated 246 compulsory redundancies (127 in 2013/14 and 119 in 2014/15) and 157 voluntary redundancies and other terminations. This cost includes the cost of redundancy payments to employees and strain on the fund costs payable to the appropriate pension fund.

The total cost of redundancy in 2013/14 totalled £3.277m (excluding schools staff). In addition, as part of the 2013/14 revenue outturn, a provision of £1.659m was created for the projected 119 compulsory redundancies in 2014/15.

Pension Liability

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

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

The current shortfall in the Council's share of the relevant pension funds has been assessed by independent actuaries as £458.60m (from £545.56m in 2012/13). The deficit on the Fund reduced by £86.96m for a variety of reasons (including changes to the 2014 scheme, increases in contribution rates, improvements in investment returns, differences in assumed

inflation rates, and changes to pension age). The Council is making the necessary pension deficiency payments over a 20-year period to address the estimated shortfall. Note 25 provides further details of the Council's pension disclosures.

Council's Borrowing Position

The *Budget and Council Tax Level Report*, approved by Council on 28 February 2013, details the 2013/14 borrowing limits for the Council.

The specific borrowing limits set relate to two of the prudential indicators that are required under the Prudential Code¹³. The Council is required to set borrowing limits for the following three financial years. The limits for 2013/14 were as follows:

- Authorised limit for external debt of £725m
- Operational boundary for external debt of £700m

As part of the Council's Treasury Management operation, these indicators are monitored on a daily basis, and neither was exceeded during 2013/14. The highest level of external debt incurred by the Council during the year was £583.417m.

Significant Issues for 2014/15 and Beyond

Funding and Budgets

Government Funding

The March 2014 Budget identified that resources to the local government budget were to be reduced from £16.6bn in 2013/14 to £13.8bn in 2014/15 and £12.1bn in 2015/16. The Chancellor also indicated that further cuts to public services of around £25bn were to be expected (split between benefits and departmental expenditure), and these were likely to include additional cuts to councils. A permanent cap on expenditure on benefits was also announced.

Central government commitments to eliminating the budget deficit and to reducing the overall levels of public debt would indicate at least four more years of significant reductions in government grant. By the end of 2015/16, it is estimated that the Council's core grant funding will have reduced by £59m (36%). This equates to an approximate £300 per head reduction in government funding since 2010.

In addition to these funding reductions, the Council has also faced very significant cost pressures (such as increases in demand for social care and inflationary pressures including increases in energy costs). These pressures have meant that the Council has had to make budget savings of over £90m since 2010, and is predicting that a further funding gap of around £60m will need to be closed over the next three years.

As part of the 2014/15 settlement, the Government provided indicative funding for 2015/16. Revenue Support Grant (RSG) for 2015/16 is estimated to reduce from £64.059m in 2014/15 to £46.183m in 2015/16, a reduction of £17.876m (28%). Funding beyond 2015/16 is unclear. The government has indicated that funding cuts will continue until 2020 and the estimated funding gap assumes that RSG will reduce by 28% in both 2016/17 and 2017/18.

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

Although there is still a great deal of uncertainty, it is now estimated that the Council faces a funding gap of £60m over the three financial years 2015/16 to 2017/18 as illustrated below:

Indicative Budget Forecasts	2015/16 £m	2016/17 £m	2017/18 £m
Estimated Base Budget	236.051	243.485	248.833
Estimated Funding	(211.274)	(197.633)	(188.906)
Cumulative Funding Gap	24.777	45.852	59.927
Annual Funding Gap	24.777	21.075	14.075

The resources available to achieve the Council’s key priorities are contained in the Council’s current *Medium Term Financial Strategy* (MTFS) which supports the *Council Plan*¹⁴. The MTFS sets out the Council’s approach to achieving a sustainable budget over the medium term whilst ensuring that all revenue resources are directed towards corporate priorities and the delivery of Vision 2030. The MTFS describes the financial direction of the Council over the planning period and outlines the financial pressures it will face. The Council is managing these pressures through its *Fit for the Future* programme.

Medium term financial planning remains difficult and the plan has been prepared against the continuing funding cuts for local government coupled with increased demand for social care and welfare reform. In addition to the funding cuts beyond 2015/16, there are risks in relation to the localisation of business rates and the local council tax scheme. Further details can be found in the MTFS, approved by Cabinet on 24 June 2014.

Public Health

The Council has received Public Health settlement for 2013/14 and 2014/15 of £15.4m and £15.8m respectively. The grant is ring-fenced and is therefore assumed to be cost neutral in the Council’s MTFS. The grant is currently based on historic primary care trust spending patterns but from 2015/16 onwards may move to a more formulaic method of distribution which, based on current proposed methodology, could significantly reduce the allocation to Gateshead.

Collection Fund

The 2014/15 base budget includes a contribution from the Collection Fund of £2.0m. The current gap assumes no further contributions as the position on the Collection Fund will be impacted by the level of collection rates of both council tax and business rates which could be adversely affected by the economic downturn and the impact of welfare reform including the localisation of council tax support.

Revenue Budget 2014/15

The Council approved a revenue base budget of £219.008m (excluding schools) for 2014/15 on 27 February 2014, a decrease of £6.041m on the 2013/14 base budget. The budget, which includes £15.4m savings, is summarised below:

	£m
Net Budget 2013/14	225.049
Inflation and service pressures	9.362
Provisional net Budget	234.411
Available funding	(219.008)
Budget savings required in 2014/15	15.403

¹⁴ See www.gateshead.gov.uk/Council%20and%20Democracy/policies/council-plan.aspx

Capital Programme 2014/15

In February 2014, the Council approved a capital programme of £77.6m for 2014/15 which included £21.4m of HRA capital investment. The level of investment over the next three years (2014/15 to 2016/17) is expected to amount to £176.8m which represents a significant level of strategic investment in the Council's assets to deliver Vision 2030. Economic and Housing Growth remains a key priority for the Council's capital investment, with planned investment of almost £56m over the next three years in these projects. Further details can be found within the Capital Programme Report.

Workforce Management Costs

The 2014/15 base budget includes a contingency of £1.1m for workforce management costs and, coupled with the provision of £1.659m: these resources reflect the anticipated redundancy costs as a result of the estimated funding gap. Further resource may be required from reserves.

Welfare Reform

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

Pensions

The Local Government Pension Scheme (LGPS) was subject to triennial review in 2014/15. Stepped deficiency payments for 2015/16 and 2016/17 have been included in the estimated funding gap. The next valuation impacts 2017/18 and given performance on the fund in recent years is likely to add additional cost pressure.

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

Wider Issues

Economic Growth

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

The Council is undertaking significant regeneration activity, including:

Trinity Square: 2013/14 saw the opening of the new £150m Trinity Square development. The Council has been working for many years to ensure that the development is of high quality. It is hoped to provide a new economic heart for Gateshead; opening up new shopping and leisure opportunities, as well as creating many jobs for local people. The development will also include accommodation for around 1,000 students.

Local Centres: The Council is continuing to progress key regeneration projects in Birtley, Blaydon and Felling to create modern, well designed and sustainable town centres. These developments include the construction of new supermarkets, retail units and car parks at

each of the three sites. The developments in both Blaydon and Birtley are expected to complete in 2014/15 and the Felling development is expected to complete in 2015/16.

Acceleration Plan: the Gateshead Economic Growth Acceleration Plan 2013-18, reported to Cabinet in October 2013, provides a broad framework to direct the investment of the Council's resources, including the Capital Programme and creation of an Economic Growth Reserve, to ensure economic growth and job creation opportunities are maximised.

Combined Authority

Following approval from the Government, the seven councils in the North East (Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland) have established a Combined Authority. The new body, called the North East Combined Authority¹⁵, will provide an opportunity for the authorities to work collectively on strategic planning in transport, skills and economic growth, to support growth in the economy and improve living standards over this wider geographical area.

Better Care Fund

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

The BCF allocation identified by government for Gateshead is £0.944m for 2014/15 and £17.214m for 2015/16 (including £1.536m capital funding). However, this is not new money to the Gateshead health and care economy, but rather represents a requirement to re-focus existing resources towards more integrated out-of-hospital care and to reduce acute hospital admissions and readmissions. This has particular implications for Gateshead Clinical Commissioning Group and local Foundation Trusts as commissioner and providers of acute care respectively. It also has implications for social care as more care is provided in community settings and pressures on existing services increase.

Provision has been made within the Council's budget for the Better Care Fund in 2014/15 and is included in the MTFs funding gap as cost neutral. The Gateshead BCF plan was reported to Cabinet on 29 April 2014.

South Tyne and Wear Waste Management Partnership

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

The contract is focussed on the development of an energy from waste facility in Teesside which will treat approximately 190,000 tonnes of residual waste generated by the three councils 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 will become payable from the 2014/15 financial year and is based upon the volumes of waste provided by each council.

¹⁵ See www.northeastca.gov.uk

District Energy Scheme

The Council has developed a town centre district energy scheme to support the regeneration of the town centre, reduce carbon emissions and lower energy costs for homes and buildings in the area. The first phase, to be operational by summer 2015, will see £14m invested in the scheme, with further extensions to be added over the coming years. The scheme will be managed through an energy services company, which will also be used as a vehicle for planned and future energy projects.

Summary

The Council, along with other local authorities, has faced unprecedented reductions in government funding since the Comprehensive Spending Review (CSR) 2010 alongside increasing demand for its services, particularly from those most vulnerable. This has meant the Council has had to make significant budget savings over recent years amounting to £90.6m.

The Council's MTFS covers the three years 2015/16 to 2017/18. Future pressures have been considered and the Council will continue its two-year approach to budget planning, following *Fit for the Future* principles. The funding gap over the two years 2015/16 and 2016/17 is estimated at £45.9m.

The continuing requirement and scale of budget savings presents an increasing challenge for the Council. It is also the case that there is greater financial uncertainty over the medium term and the financial projections may need to be revisited once the funding picture becomes clearer.

Although the financial context continues to be increasingly challenging, the Council has a track record of identifying and delivering significant savings and delivering budget out-turn under agreed budget within a framework of effective financial planning. This approach will continue to ensure that a sustainable financial position can be maintained.

Further Information

This publication provides a review of the financial performance of the Council for 2013/14. Given the complexity of these accounts, a summary accounts document will be produced and published on the Council's website. This information will also be included in the Council's Annual Report. Comments are invited on the usefulness and readability of this summary document.



Darren Collins
Strategic Director, Finance & ICT

Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Gateshead Council, that officer is the Strategic Director, Finance & ICT;
- 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, Finance & ICT's Responsibilities

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

In preparing this Statement of Accounts, the Strategic Director, Finance & ICT has:

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

The Strategic Director, Finance & ICT 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 2014, required by the Accounts and Audit (England) Regulations 2011 are set out in the following pages.

I further certify that the Statement of Accounts give a true and fair view of the financial position of the Council at 31 March 2014 and of its income and expenditure for the year ended 31 March 2014.

Signed:



Date:

25/9/14

Darren Collins
Strategic Director, Finance & ICT

Part 2: Core Financial Statements

Movement in Reserves Statement

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

2012/13 movements:

RESTATED

(see Note 3)

Note	General Fund Balance	Earmarked GF Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Useable Reserves	Unusable Reserves	Total Authority Reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance as at 31 March 2012	(22,840)	(15,361)	(15,171)	(5,609)	(1,104)	(8,293)	(68,378)	(197,115)	(265,493)
(Surplus) or deficit on provision of services	54,259	0	(4,298)	0	0	0	49,961	0	49,961
Other comprehensive (income) and expenditure	0	0	0	0	0	0	0	(7,718)	(7,718)
Total comprehensive (income) and expenditure	54,259	0	(4,298)	0	0	0	49,961	(7,718)	42,243
Adjustments between accounting basis & funding basis under regulations	(58,941)	0	1,416	1,657	(1,741)	2,680	(54,929)	54,929	0
Net (increase) / decrease before transfers to earmarked reserves	(4,682)	0	(2,882)	1,657	(1,741)	2,680	(4,968)	47,211	42,243
Transfers (to) / from earmarked reserves	3,711	(3,711)	0	0	0	0	0	0	0
(Increase) or decrease in year	(971)	(3,711)	(2,882)	1,657	(1,741)	2,680	(4,968)	47,211	42,243
Balance as at 31 March 2013	(23,811)	(19,072)	(18,053)	(3,952)	(2,845)	(5,613)	(73,346)	(149,904)	(223,250)

Comprehensive Income and Expenditure Statement

2012/13 RESTATED			Service	2013/14			Notes
Gross Exp. £000s	Gross Income £000s	Net Exp. £000s		Gross Exp. £000s	Gross Income £000s	Net Exp. £000s	
6,861	(3,814)	3,047	Central services to the public	6,543	(3,670)	2,873	
40,323	(9,362)	30,961	Cultural and related services	28,228	(8,393)	19,835	
21,713	(5,033)	16,680	Environmental and regulatory services	29,638	(11,049)	18,589	
18,812	(6,421)	12,391	Planning services	33,269	(7,737)	25,532	
201,824	(135,669)	66,155	Children's and education services	175,722	(131,040)	44,682	
16,769	(4,131)	12,638	Highways & transport services	16,101	(4,676)	11,425	
55,873	(77,242)	(21,369)	Local authority housing (HRA)	55,069	(79,727)	(24,658)	
0	0	0	- asset revaluation	42,954	0	42,954	
88,103	(85,780)	2,323	Other housing services	94,647	(86,798)	7,849	
97,001	(37,291)	59,710	Adult social care	98,831	(30,586)	68,245	
0	0	0	Public health	14,610	(15,584)	(974)	
6,921	(244)	6,677	Corporate & democratic core	7,816	(566)	7,250	
2,800	0	2,800	Non-distributed costs	8,860	0	8,860	
557,000	(364,987)	192,013	Cost of services	612,288	(379,826)	232,462	8
		16,208	Other operating expenditure			35,537	7c
		48,076	Financing and investment income & expenditure			48,073	7c
		(206,336)	Taxation and non-specific grant income			(223,278)	7c
		49,961	(Surplus) or deficit on provision of services			92,794	
		(19,996)	(Surplus) or deficit on revaluation of non-current assets			(7,916)	17
		23,050	Re-measurements of the net defined benefit liability			(113,790)	25
		(10,772)	(Surplus) or deficit on revaluation of available for sale financial assets			0	
		(7,718)	Other comprehensive (income) and expenditure			(121,706)	
		42,243	Total comprehensive (income) and expenditure			(28,912)	

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Balance Sheet

31/03/13 £000s		31/03/14 £000s	Notes
1,299,668	Property, plant & equipment	1,236,489	17
20,906	Heritage assets	20,929	18
305	Investment property	313	
1,619	Intangible assets	2,073	
11,588	Long-term investments	11,588	26
16,755	Long-term debtors	16,496	22
1,350,841	Long-term assets	1,287,888	
23,603	Short-term investments	35,036	26
1,967	Assets held for sale	3,976	
1,820	Inventories	2,935	
40,067	Short-term debtors	50,040	22
13,741	Cash and cash equivalents	21,650	21
81,198	Current assets	113,637	
(7,404)	Cash and cash equivalents	(14,010)	21
(41,745)	Short-term borrowing	(76,563)	26
0	Short-term provisions	(3,315)	
(51,915)	Short-term creditors	(62,116)	23
(101,064)	Current liabilities	(156,004)	
(25,992)	Long-term creditors	(25,355)	23
(4,143)	Long-term provisions	(4,305)	
(529,118)	Long-term borrowing	(503,685)	26
(545,560)	Pensions liability	(458,600)	25
(2,912)	Capital grants receipts in advance	(1,414)	
(1,107,725)	Long-term liabilities	(993,359)	
223,250	Net assets	252,162	
	Usable reserves:		
(2,845)	Capital Receipts Reserve	(4,964)	
(5,613)	Capital Grants Unapplied	(4,326)	
(16,477)	General Fund - General Reserve	(14,884)	
(7,334)	General Fund - LMS Reserve	(8,086)	
(18,053)	Housing Revenue Account	(18,008)	
(19,072)	Earmarked Reserves	(27,319)	
(3,952)	Major Repairs Reserve	0	
(73,346)	Total usable reserves	(77,587)	6b
(149,904)	Unusable reserves	(174,575)	6b
(223,250)	Total reserves	(252,162)	

Signed:



Date:

25/9/14

Darren Collins

Strategic Director, Finance & IT Page 50

Cash Flow Statement

2012/13 RESTATED £000s		2013/14 £000s
49,961	Net (surplus) or deficit on the provision of services	92,794
	Adjustments to net surplus or deficit on the provision of service for non-cash movements:	
(37,510)	Depreciation of non-current assets	(36,108)
(38,649)	Impairment / downward revaluation of non-current assets	(60,210)
(589)	Amortisation of intangible non-current assets	(820)
(16,162)	Pension adjustments	(26,830)
(835)	Increase/decrease in impairment for provision for bad debts	(5,223)
514	Contributions (to) / from provisions	(3,477)
(9,682)	Carrying amount of PP&E, investment property, assets held for sale and intangible assets sold	(29,873)
3,118	Non-cash component of trading operation results	0
(3,481)	Other non-cash movement	(2,844)
(103,276)		(165,385)
	Accruals adjustments:	
950	(Decrease)/increase in inventories	1,115
(245)	(Decrease)/increase in debtors	14,249
40	(Decrease)/increase in interest debtors	(88)
2,143	Decrease/(increase) in creditors	(10,201)
(95)	Decrease/(increase) in interest creditors	(236)
2,793		4,839
	Adjustments for items included in the net surplus or deficit on the provision of service that are investing or financing activities:	
7,253	Proceeds from the disposal of PP&E, investment property, assets held for sale and intangible assets	9,979
17,579	Capital grants credited to surplus or deficit on the provision of services	19,532
24,832		29,511
	Reversal of operating activity items included in the net surplus or deficit on the provision of service that are shown separately below:	
(28,066)	Reversals of amounts disclosed separately below	(25,554)
	Cash flows from operating activities includes the following items:	
27,359	Interest paid	27,327
(888)	Interest received	(1,304)
26,471		26,023
(27,285)	Net cash flows from operating activities	(37,772)

	Net cash flows from investing activities:	
46,401	Purchase of PP&E, investment property, assets held for sale and intangible assets	55,445
789,276	Purchase of short term and long term investments	559,463
6,603	Other payments for investing activities	4,754
(7,040)	Proceeds from the sale of PPE, investment property, assets held for sale and intangible assets	(9,979)
(787,548)	Proceeds from the sale of short term and long term investments	(548,112)
(16,782)	Capital grants received (government)	(16,568)
(311)	Other receipts for investing activities	0
30,599	Net cash flows from investing activities	45,003
	Net cash flows from financing activities:	
(12,000)	Cash receipts of short and long term borrowing	(35,000)
671	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on Balance Sheet PFI contracts	615
9,554	Repayment of short and long term borrowings	25,851
(1,775)	Net cash flows from financing activities	(8,534)
1,539	Net (increase)/ decrease in cash and cash equivalents	(1,303)
7,876	Cash and cash equivalents at the beginning of the period	6,337
6,337	Cash and cash equivalents at the end of the period	7,640

Notes to the Core Financial Statements

1. Significant Accounting Policies

This Statement of Accounts summarises the Council's transactions during the financial year and its position at the year-end. Legislation¹⁶ requires that the Council prepare the Statement annually, and in accordance with proper practice (the local government Code of Practice, the Service Reporting Code of Practice (SeRCOP) and international standards).

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

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

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

2. Impact of changes in accounting policies and prior period adjustments

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period. It should be highlighted that the Comprehensive Income and Expenditure Statement (CIES), Movement in Reserves Statement (MIRS), the Cash Flow Statement and Notes 6, 7, 8 and 25 have been materially amended due to a change in accounting policy required by a change in the 2013/14 Code of Practice relating to employee benefit (pension) changes (classification, recognition, measurement and disclosure changes to IAS 19). There is no impact on reserves due to the statutory reversal of the additional charges through the MIRS. The following table summarises the changes to the CIES and MIRS:

	2012/13 Original	2012/13 Revised	Difference
CIES and MIRS:			
Cost of services (General Fund and HRA)	26,728	27,718	990
Financing and investment income and expenditure	8,340	22,830	14,490
Change in surplus/deficit on provision of services	35,068	50,548	15,480
Re-measurements of the net defined benefit liability	38,530	23,050	(15,480)
MIRS: Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	(2,131)	(17,611)	(15,480)
Cash Flow Statement: Pension adjustments	(682)	(16,162)	(15,480)
Net charge to General Fund / HRA	71,467	55,987	(15,480)

3. Critical judgements in applying accounting policies

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

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

¹⁶ www.legislation.gov.uk/ukxi/2011/817/pdfs/ukxi_20110811_en.pdf

4. Accounting standards issued but not yet adopted

A number of changes to accounting standards may affect the Statement of Accounts from 1 April 2014 and may require retrospective application. Note that none of the changes are anticipated to have a material effect on the Statement of Accounts:

- **Group Accounting Standards:** IFRS 10 Consolidated financial statements, IFRS 11 Joint arrangements, IFRS 12 Disclosures of interests in other entities, IAS 27 Separate financial statements (2011), and IAS 28 Investments in associates & joint ventures (2011)
- **IAS 32 Financial Instruments: Presentation**
- **IFRS 13 Fair Value Measurement**

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 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- **Pension liabilities:** estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. Sensitivities are included in Note 25.
- **Depreciation:** assets are depreciated over their estimated useful lives and are based on assumptions about the level of repairs and maintenance that will be incurred and useful economic lives.
- **Revaluations:** valuations are carried out on a rolling programme of up to five years, meaning that there is a possibility of material changes in value between valuations. The risk is minimised by annual valuations of all significant assets and annual reviews of market conditions for all asset categories to ensure that the fair value of assets as at the 31 March are not materially misstated.
- **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.
- **Airport valuation:** the Council uses external information including share price to assess the value of its share in Newcastle International Airport which is revalued on an annual bases.

6. Movement in Reserves Statement adjustments

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

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

Note 6 continued...

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

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

* All charged to Capital Adjustment Account; † includes 8,713 to Revaluation Reserve, 21,160 to Capital Adjustment Account; ‡ All charged to Pension Reserve; \$ includes (25,869) charged to Capital Adjustment Account and 2,026 charged to Revaluation Reserve

2012/13 movements (£000s) RESTATED	General Fund	HRA	MRR	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves RESTATED
Charges for depreciation of non-current assets	(25,068)	0	(12,442)	0	0	*37,510
Impairment and revaluation losses (charged to Surplus or Deficit on the Provision of Services) of non-current assets	(38,649)	0	0	0	0	*38,649
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	(16,749)	(862)	0	0	0	‡17,611
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	16,097	1,481	0	0	(2,860)	*(14,718)
Revenue expenditure funded from capital under statute	(4,851)	0	0	0	0	*4,851
Net gain or loss on sale of non-current assets	(3,052)	293	0	(6,821)	0	*9,580
Statutory provision for repayment of debt	14,006	0	0	0	0	*(14,006)
Other transfers to/from other reserves required by legislation	(675)	504	14,099	5,080	5,540	\$(24,548)
Adjustments between accounting basis & funding basis under regulations	(58,941)	1,416	1,657	(1,741)	2,680	54,929

* All charged to Capital Adjustment Account; † includes 5,148 to Revaluation Reserve, 4,534 to Capital Adjustment Account; ‡ All charged to Pension Reserve; \$ includes (24,564) charged to Capital Adjustment Account, 1,633 charged to Revaluation Reserve and 1,007 charged to the Collection Fund Adjustment Account

Note 6 continued...

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

Usable Reserves

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

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

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

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

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

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

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

Unusable Reserves

The **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

Note 6 continued...

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

The **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 **Newcastle International Airport Reserve** is a revaluation reserve reflecting changes in the estimated market value of the Council's holding in the Airport.

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

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 **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.

Deferred Capital Receipts are created when Council dwellings are sold and a mortgage is advanced to enable tenants to purchase the property. An amount equal to this is called a deferred capital receipt. They are written down each year by the amount of debt repaid.

Note 6 continued...

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

Balance as at 31/03/13 £000s		Transfers to reserve £000s	Transfers from reserve £000s	Balance as at 31/03/14 £000s
	Useable Reserves			
	General Fund balance:			
(16,477)	General Reserve	(3,703)	5,296	(14,884)
(7,334)	LMS Budget Share Reserve	(1,799)	1,047	(8,086)
(23,811)	General Fund	(5,502)	6,343	(22,970)
	Earmarked General Fund reserves:			
(3,000)	Insurance	0	0	(3,000)
(1,375)	Grant clawback	(438)	499	(1,314)
(6,098)	Gateshead development pool	0	89	(6,009)
(2,121)	Developers' contributions	(640)	104	(2,657)
(500)	Equal pay	0	500	0
(2,510)	Unapplied revenue grants	(575)	73	(3,012)
(56)	Economic downturn	0	56	0
(2,306)	Economic growth	(56)	0	(2,362)
0	Business rates	(5,000)	0	(5,000)
0	Budget flexibility	(473)	0	(473)
0	Discretionary social fund	(611)	0	(611)
0	Public health	(961)	0	(961)
(1,106)	DSG	(814)	0	(1,920)
(19,072)	Total Earmarked General Fund reserves:	(9,568)	1,321	(27,319)
(18,053)	Housing Revenue Account (HRA) balance		45	(18,008)
	Earmarked HRA reserves:			
(3,952)	Major Repairs Reserve	(12,901)	16,853	0
(2,845)	Capital Receipts Reserve	(10,331)	8,212	(4,964)
(5,613)	Capital Grants Unapplied	(2,748)	4,035	(4,326)
(73,346)	Total usable reserves	(35,754)	31,513	(77,587)
	Unusable reserves			
(93,527)	Revaluation Reserve	(22,869)	25,690	(90,706)
(593,404)	Capital Adjustment Account	(63,694)	121,937	(535,161)
4,080	Financial Instrument Adjustment Account	(92)	0	3,988
(11,331)	Newcastle International Airport Reserve	0	0	(11,331)
(2,297)	Deferred Capital Receipts Reserve	0	184	(2,113)
(2,573)	Collection Fund Adjustment Account	(449)	1,698	(1,324)
3,588	Accumulated Absences Account	(116)	0	3,472
545,560	Pensions Reserve	(113,790)	26,830	458,600
(149,904)	Total unusable reserves	(201,010)	176,339	(174,575)
(223,250)	Total reserves of the Council	(242,060)	213,148	(252,162)

7. Comprehensive Income and Expenditure Statement (CIES) information

a. Key accounting policies:

Accruals of expenditure and income

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

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

Overheads

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

Charges to revenue for non-current assets

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

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

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

Note 7 continued...

Value added tax

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

b. **Material items of income or expense:**

Any material items of income or expense within the accounts have been disclosed elsewhere within the notes; these relate to depreciation and downward revaluations (£36.108m and £58.858m respectively; see Notes 6a, 17 and HRA Notes 6 and 7), actuarial pension adjustments (£113.790m; see Notes 6a and 25), and surpluses on revaluation (£7.916m; see Notes 6a, 17 and 18). Note that public health is a new, material duty in 2013/14; in 2012/13, costs were negligible (£0.097m transition costs) and for this reason have not been included as comparators in the *Public health* line of the Comprehensive Income and Expenditure Statement.

c. **Analysis of items below Cost of Services:**

2012/13 RESTATED		2013/14
£000s		£000s
	Other operating expenditure	
2,648	Gains / losses on the disposal of non-current assets	19,894
	Precepts and levies:	
150	Environment Agency levy	144
23	Tyne Port Health Authority precept	22
12,021	Tyne and Wear Integrated Transport Authority levy	12,737
8	Lamesley Parish Council precept	8
1,358	Payments to the housing capital receipts pool	2,732
16,208		35,537
	Financing and investment income and expenditure	
29,246	Interest payable and similar charges	29,313
22,830	Net interest on defined benefit liability/(asset)	23,170
(882)	Interest receivable and similar income	(2,099)
0	Changes in the fair value of investment properties	0
(3,118)	(Surpluses) / deficits on trading activities	(2,311)
48,076		48,073
	Taxation and non-specific grant income	
(88,536)	Council tax income	(69,952)
(2,563)	Government grants not attributable to services	(93,376)
(17,579)	Capital grants and contributions	(19,531)
(97,658)	Business rates (NNDR) redistribution	(40,419)
(206,336)		(223,278)

8. **Segmental analysis**

This note reports revenues against budgets analysed in line with the Council's internal management reporting arrangements and reconciles this with the Comprehensive Income and Expenditure Statement. The format of the information is in line with the quarterly reports received by the Council's Cabinet:

Note 8 continued...

Service	2013/14				
	Gross Income £000s	Gross Exp. £000s	Net Exp. £000s	Net Budget £000s	Budget Variance £000s
Learning & Children					
Individual Schools Budget (ISB)	0	80,067	80,067	0	80,067
Dedicated Schools Grant (DSG)	(101,513)	0	(101,513)	0	(101,513)
Centrally Held DSG	0	21,446	21,446	0	21,446
Business Support	(11,510)	12,556	1,046	732	314
Learning & Schools	(6,880)	9,076	2,196	2,412	(216)
Children's Commissioning	(1,595)	6,626	5,031	5,230	(199)
Social Work - Children and Families	(1,031)	22,153	21,122	20,174	948
Children & Families Support	(1,235)	7,744	6,509	7,272	(763)
	(123,764)	159,668	35,904	35,820	84
Community Based Services					
Social Care & Independent Living	(26,212)	87,783	61,571	62,751	(1,180)
Libraries, Sport & Culture	(8,263)	17,927	9,664	9,608	56
Commissioning & Business Development	(666)	8,119	7,453	8,306	(853)
Communities, Neighbourhoods and Volunteering	(99)	2,225	2,126	2,016	110
Public Health	(350)	14,790	14,440	15,401	(961)
Housing General Fund	(163)	1,095	932	940	(8)
Housing Benefits	(86,515)	86,331	(184)	(665)	481
	(122,268)	218,270	96,002	98,357	(2,355)
Development & Enterprise					
Transport Strategy	(4,627)	7,612	2,985	2,745	240
Development & Public Protection	(1,800)	4,071	2,271	2,009	262
Property & Design	(7,485)	6,163	(1,322)	(1,659)	337
Economic and Housing Growth	(3,598)	6,536	2,938	3,088	(150)
	(17,510)	24,382	6,872	6,183	689
Local Environmental Services	(35,601)	58,751	23,150	23,408	(258)
Central Services and Other					
Chief Executives & Communications	(330)	2,286	1,956	1,918	38
Legal and Corporate Services	(4,910)	10,647	5,737	5,954	(217)
Finance & ICT	(10,837)	16,765	5,928	6,637	(709)
Other Services & Contingencies	(1,501)	11,653	10,152	7,269	2,883
	(17,578)	41,351	23,773	21,778	1,995
Capital Financing Costs		23,819	23,819	27,170	(3,351)
Investment Income	(1,869)	0	(1,869)	(548)	(1,321)
Sub Total before Levies	(318,590)	526,241	207,651	212,168	(4,517)
Total Levies	0	12,881	12,881	12,881	0
Net Spend Before Financing	(318,590)	539,122	220,532	225,049	(4,517)
Financing	(224,235)	0	(224,235)	(225,049)	814
Net Spend	(542,825)	539,122	(3,703)	0	(3,703)

Note 8 continued...

Service	2012/13				
	Gross Income £000s	Gross Exp. £000s	Net Exp. £000s	Net Budget £000s	Budget Variance £000s
Learning & Children					
Individual Schools Budget (ISB)	0	87,400	87,400	87,400	0
Dedicated Schools Grant (DSG)	(100,865)	0	(100,865)	(100,865)	0
Centrally Held DSG	0	13,465	13,465	13,465	0
Business Support	(10,040)	10,918	878	481	397
Learning & Schools	(5,805)	7,803	1,998	2,425	(427)
Children's Commissioning	(3,377)	6,935	3,558	3,633	(75)
Social Work - Children and Families	(1,439)	21,938	20,499	17,689	2,810
Children & Families Support	(9,320)	9,639	319	797	(478)
	(130,846)	158,098	27,252	25,025	2,227
Community Based Services					
Adults' Social Services	(36,349)	87,872	51,523	49,875	1,648
Libraries, Sport & Culture	(7,517)	17,751	10,234	9,915	319
Commissioning & Business Development	(152)	2,539	2,387	2,403	(16)
Communities, Neighbourhoods and Volunteering	(950)	8,429	7,479	7,300	179
Housing General Fund	(308)	1,233	925	811	114
Housing Benefits	(85,266)	84,600	(666)	(515)	(151)
	(130,542)	202,424	71,882	69,789	2,093
Development & Enterprise					
Transport Strategy	(4,529)	7,572	3,043	3,416	(373)
Development & Public Protection	(1,952)	4,107	2,155	2,030	125
Environment & Regeneration	(1,320)	3,134	1,814	1,948	(134)
Property & Design	(7,707)	6,850	(857)	(1,436)	579
Economic Development	(848)	2,560	1,712	1,643	69
	(16,356)	24,223	7,867	7,601	266
Local Environmental Services	(29,718)	53,945	24,227	24,549	(322)
Central Services and Other					
Chief Executives & Communications	(512)	2,400	1,888	1,866	22
Legal, HR & Corp Procurement	(4,891)	9,199	4,308	4,533	(225)
Finance & ICT	(10,200)	16,388	6,188	6,128	60
Other Services & Contingencies	(6,639)	16,185	9,546	14,376	(4,830)
	(22,242)	44,172	21,930	26,903	(4,973)
Capital Financing Costs	0	23,383	23,383	25,161	(1,778)
Investment Income	(752)	0	(752)	(695)	(57)
Sub Total before Levies	(330,456)	506,245	175,789	178,333	(2,544)
Total Levies	0	12,171	12,171	12,171	0
Net Spend Before Financing	(330,456)	518,416	187,960	190,504	(2,544)
Financing	(191,123)	0	(191,123)	(190,504)	(619)
Net Spend	(521,579)	518,416	(3,163)	0	(3,163)

Note 8 continued...

Reconciliation between the segmental reporting analysis and an analysis of total income & expenditure (subjective analysis)									
2012/13 RESTATED		2013/14							
Total £000s	Service	Service Analysis £000s	Not reported in service accounts £000s	Not included in CI&E £000s	Support services' reallocation £000s	Other £000s	Net Cost of Services £000s	Corporate Amounts £000s	Total £000s
(224,131)	Government grants & contributions	(221,475)	(4,870)	0	0	0	(226,345)	(93,376)	(319,721)
(42,391)	Other Grants	(23,850)	(15,401)	0	0	0	(39,251)	(19,531)	(58,782)
(36,326)	Customer & Client Receipts	(56,500)	(2,889)	148	5,649	0	(53,592)	0	(53,592)
(7)	Interest Received	(1,906)	0	1,869	0	0	(37)	0	(37)
0	Internal Recharges	(24,884)	(4,161)	0	26,180	0	(2,865)	0	(2,865)
(6,615)	Miscellaneous Recharges	(9,653)	0	0	0	259	(9,394)	0	(9,394)
(882)	Investment Income	0	0	0	0	0	0	(2,099)	(2,099)
(88,536)	Council Tax	0	0	0	0	0	0	(69,952)	(69,952)
(97,658)	NNDR	0	0	0	0	0	0	(40,419)	(40,419)
496,546	Total Income	(338,268)	(27,321)	2,017	31,829	259	(331,484)	(225,377)	(556,861)
195,097	Employee expenses	200,830	5,178	1,051	(19,972)	0	187,087	23,170	210,257
21,128	Premises	22,961	794	(1,967)	0	0	21,788	0	21,788
9,477	Transport	13,071	0	0	0	0	13,071	0	13,071
36,536	Supplies & Services	47,245	0	0	0	0	47,245	0	47,245
184,669	Third Party / Transfer Payments	218,450	0	0	0	0	218,450	0	218,450
11,756	Support Services	15,693	3,557	0	(11,857)	0	7,393	0	7,393
26,386	Capital Financing	25,400	0	(23,819)	0	0	1,581	0	1,581
40,128	Capital Charges	2,269	45,445	(826)	0	0	46,888	0	46,888
12,202	Precepts & Levies	12,881	0	(12,881)	0	0	0	12,911	12,911
(3,118)	Trading	0	0	1,714	0	0	1,714	(2,311)	(597)
(195)	Other	0	0	0	0	(233)	(233)	233	0
29,246	Interest Payable	0	0	0	0	0	0	29,313	29,313
1,358	Payments to Housing Capital Receipts Pool	0	0	0	0	0	0	2,732	2,732
2,648	Gain / Loss on Disposal of Assets	0	0	0	0	0	0	19,661	19,661
(20,811)	Housing Revenue Account (HRA)	0	18,962	0	0	0	18,962	0	18,962
546,507	Total Operating Expenses	558,800	73,936	(36,728)	(31,829)	(233)	563,946	85,709	649,655
49,961	(Surplus) or deficit on provision of services	220,532	46,615	(34,711)	0	26	232,462	(139,668)	92,794

Note 8 continued...

2012/13 RESTATED £000s		2013/14 £000s
187,960	Cost of Services in Service Analysis	220,532
46,136	Amounts not included in the analysis but included in the Comprehensive Income & Expenditure Statement	46,615
(47,057)	Amounts included in the analysis but not included in the Comprehensive Income & Expenditure Statement	(34,711)
4,974	Other	26
192,013	Net Cost of Services	232,462

9. Councillors' allowances

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

2012/13 £000s		2013/14 £000s
669	Basic allowance	668
368	Special responsibility allowance	368
21	Other allowances and expenses	18
1,058	Total	1,054

10. Dedicated Schools Grant

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

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

Details of the deployment of DSG receivable for 2013/14 are as follows:

	Central expenditure £000s	ISB £000s	Total £000s
Final DSG for 2013/14	21,836	111,306	133,142
Academy figure recouped for 2013/14	(389)	(31,239)	(31,628)
Total DSG after academy recoupment 2013/14	21,447	80,067	101,514
Plus brought forward from 2012/13	1,106	0	1,106
Less carry-forward to 2014/15 agreed in advance	0	0	0
Agreed initial budgeted distribution in 2013/14	22,553	80,067	102,620
Less in-year adjustments	0	0	0
Final budget distribution for 2013/14	22,553	80,067	102,620
Less actual central expenditure	20,745	0	20,745
Less actual ISB deployed to schools	0	(79,955)	(79,955)
Plus local authority contribution for 2013/14	0	0	0
Carry-forward to 2014/15	1,808	112	1,920

11. External audit costs

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

2012/13 £000s		2013/14 £000s
172	Fees for external audit services carried out for the year	173
28	Fees for certification of grant claims / returns for the year	15
1	Fees for ERDF claim audit	13
0	2012/13 audit fees rebate (Audit Commission)	(24)
201		177

12. Government and non-government grants

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

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

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

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

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

The Council has deviated from the Code in an immaterial way with regard to the treatment of unspent, non-conditional revenue grant income and contributions. The recommended treatment, defined within the Code of Practice, is to appropriate any income unspent at the year-end into an earmarked reserve. However, the Council has set a threshold of £100,000; any grants below this level are classified as receipts in advance (within creditors on the Balance Sheet; see also Note 6b). The reasons for this are operational: approval from Cabinet is required to appropriate funds from reserves, which is not practical for small amounts on a regular basis, and it would increase the complexity and reduce the transparency of the Council's budget monitoring processes. The value of the Code deviation was £0.252m in 2013/14 (£0.833m in 2012/13).

Note 12 continued...

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

2012/13 £000s		2013/14 £000s
	a) General government grants not attributable to Services	
(1,893)	Revenue Support Grant (RSG)	(76,777)
(97,659)	Distribution from the national business rates pool	0
0	Top Up Grant	(9,499)
0	Other Grants	(7,108)
(99,552)		(93,384)
	b) Specific government grants attributable to Services	
(7,757)	Department of Communities & Local Government	(11,720)
(118,338)	Department for Education	(113,114)
(85,766)	Department for Work and Pensions	(87,674)
(12,172)	Department for Business Innovation & Skills	0
0	Public Health	(15,401)
(1,035)	Joint / Other	(4,674)
(225,068)		(233,124)
(9)	c) Specific non-government grants attributable to Services	0
	d) Capital grant income not attributable to Services	
(3,836)	Department of Communities & Local Government	(728)
(4,175)	Department for Education	(3,910)
(90)	European Regional Development Fund	(1,160)
(4,745)	Other government grants	(8,371)
(2,089)	Other non-government grants	(1,964)
(695)	Other non-government contributions	0
(15,630)		(16,133)
(340,259)	Total grants and government contributions	(342,641)
	e) Other contributions	
(30,116)	Other revenue contributions attributable to Services	(29,697)
(1,949)	Other capital contributions not attributable to Services	(435)
0	Donated assets not attributable to Services	(2,964)
(32,065)	Total other contributions	(33,096)

13. Leases

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

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

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

Note 13 continued...

The Council as lessor**Operating leases**

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

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

	31/03/13 Restated* £000s	31/03/14 £000s
Not later than one year	3,149	3,155
Later than one year and not later than five years	6,672	6,667
Later than five years	44,603	43,938
	54,424	53,760

* Figure incorrect in 2012/13 accounts (978) so restated for comparability

14. Officers' remuneration

The number of employees (including schools) whose remuneration (excluding pension contributions) was over £50,000 is summarised below. The table has been prepared including and excluding the effect of any redundancies taking place in 2013/14 to indicate the cost impact on senior staff:

Remuneration Band	Number of Employees			
	Including the effects of redundancies		Excluding the effects of redundancies	
	2012/13	2013/14	2012/13	2013/14
£50,000 - £54,999	44	56	42	50
£55,000 - £59,999	32	31	31	28
£60,000 - £64,999	31	34	30	30
£65,000 - £69,999	15	22	15	15
£70,000 - £74,999	11	19	11	12
£75,000 - £79,999	7	8	7	4
£80,000 - £84,999	1	9	1	8
£85,000 - £89,999	2	1	2	1
£90,000 - £94,999	1	3	2	2
£95,000 - £99,999	2	4	2	4
£100,000 - £104,999	0	0	0	0
£105,000 - £109,999	0	2	0	1
£110,000 - £114,999	0	1	0	0
£115,000 - £119,999	0	0	0	0
£120,000 - £124,999	1	2	0	1

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

Note 14 continued...

Remuneration of senior employees 2013/14

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

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Note 1: Responsibility Allowance payable up to 30.06.13 total amount included £4,243

Note 2: Responsibility Allowance payable up to 30.06.13 total amount included £4,925

Note 3: Responsibility Allowance payable up to 30.06.13 total amount included £2,814

Note 4: Post and responsibilities transferred from 1 April 2013

Remuneration of senior employees 2012/13

Post holder information	Notes	Salary (incl. fees & allowances) £	Expense allowances £	Benefits in kind £	Pension contributions £	Total remuneration £
Chief Executive, J Robinson	1	158,307	6,550	6,053	24,234	195,144
Assistant Chief Executive		94,600	0	7,283	13,906	115,789
Strategic Director, Finance and ICT (1)	2	98,582	0	2,485	262,947	364,014
Strategic Director, Finance and ICT (2)	2	27,092	0	1,548	3,983	32,623
Strategic Director, Legal and Corporate Services		132,269	0	6,870	19,443	158,582
Strategic Director, Community Based Services		107,211	0	5,646	15,760	128,617
Strategic Director, Learning and Children		112,653	0	3,756	16,548	132,957
Strategic Director, Local Environmental Services		123,910	0	8,994	18,202	151,106
Strategic Director, Development & Enterprise		112,160	0	6,578	16,488	135,226
		966,784	6,550	49,213	391,511	1,414,058

Note 1: Returning Officer Fees for Council Election and General Election

Note 2: Original postholder retired 31/12/2012 and was replaced from 1/1/2013. Pension contributions include £248,468 relating to strain on the fund payment to the pension fund for retirement costs

Note 14 continued...

Payments for Northumbria Police responsibilities (reduced in 2013/14 due to the transfer of responsibilities to the Northumbria Police and Crime Commissioner), included in above:

	2012/13	2013/14
	£	£
Strategic Director, Finance and ICT	13,885	4,243
Strategic Director, Legal and Corporate Services	19,700	4,925
Strategic Director, Development and Enterprise	10,196	2,814

Termination benefits / Exit packages

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

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

The table below shows that the 2013/14 Statement of Accounts recognises a cost of £5.812m in relation to an estimated 246 compulsory redundancies (CRs) and 157 other redundancies. The CRs include a provision for anticipated compulsory redundancies during 2014/15 based on expected savings. This included voluntary redundancies (VRs) and the non-renewal of fixed-term contracts. The cost includes redundancy payments to employees and strain on the fund costs payable to the appropriate pension fund:

2012/13				Exit package cost band	2013/14			
CR	Other	Total	Cost £000s		CR	Other	Total	Cost £000s
38	76	114	711	£0 - £20,000	240	103	343	2,934
1	36	37	1,013	£20,001 - £40,000	5	28	33	916
0	20	20	1,043	£40,001 - £60,000	0	13	13	668
0	10	10	714	£60,001 - £80,000	1	5	6	414
0	6	6	554	£80,001 - £100,000	0	4	4	362
0	0	0	0	£100,001 - £150,000	0	3	3	337
0	1	1	187	£150,001 - £200,000	0	1	1	181
39	149	188	4,222	Total	246	157	403	5,812

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.

Note 15 continued...

Central government

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

Councillors

Elected councillors have direct control over the Council's financial and operating policies. The total of councillors' allowances paid in 2013/14 is shown in Note 9.

During 2013/14, no works and services were commissioned from companies in which councillors had an interest, and the Council entered into no related party transactions with councillors. Details of councillors' interests are recorded in the Register of Councillors' Interests (updated annually); open to public inspection at the Civic Centre during office hours.

Senior officers

During 2013/14, no related party transactions were entered into with senior officers or their close family members.

Joint arrangements

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

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

The main joint arrangements identified during 2013/14 were as follows:

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

The above bodies' assets attributable to the Council have not been included on the Balance Sheet on materiality grounds. The only significant balance at the year-end related to the cash balance owed to NEPO (£2.878m).

Entities controlled or significantly influenced by the Council

Newcastle Airport

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. On 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.

Note 15 continued...

The Council holds a 13.04% interest in NALAHCL, valued at £11.583m. The shares are not held for trading outside of the LA7.

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially change the valuation. The last valuation is based on the sale of shares to AMP Capital Investors Limited in 2012. As no such events have occurred during 2013/14 the valuation has remained unchanged.

Through its shares in NALAHCL the Council has an effective shareholding of 13.33% in NIAL (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of NIAL (registered number 2077766) is the provision of landing services for both commercial and freight operators. A dividend of £0.306m was received for the year ended 31 December 2013 (nil for the year ended 31 December 2012).

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

NIAL Group Limited made a loss before tax of £11.134m and a loss after tax of £3.615m for the year ended 31 December 2013. In the previous year, the Group made a loss before tax of £3.296m (as restated) and a profit after tax of £0.782m (as restated).

The Gateshead Trading Company

The Gateshead Trading Company Ltd is a wholly owned subsidiary of Gateshead Council limited by shares. The Council owns all of the shares of the company and the share capital of the company is £100 divided into 100 ordinary shares of £1 each. 2010/11 was the first year of active trading. Its activities during 2013/14 included construction, design services and economic development. The company's turnover in 2013/14 was £0.876m, with retained balances before dividends of £0.225m. The recommended dividend was £0.136m.

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

The Gateshead Housing Company (TGHC)

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

TGHC is paid a management fee for managing the Council's housing stock, which is agreed annually. In 2013/14, a management fee of £33.710m was paid through the HRA in relation to the repairs, maintenance, supervision and management of the housing stock. A three-year repairs and maintenance contract was awarded to the Mears Group from 1 April 2012.

In 2013/14, TGHC also received £1.0m for managing the Council's housing capital programme, for work in relation to Decent Homes and Housing Regeneration projects.

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

Note 15 continued...

Gateshead Regeneration Partnership (GRP)

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

The Council has 50% control of this partnership. The first sites were transferred to GRP for development from Council ownership in March 2014, which generated a loss on disposal reflected in the Statement of £5.7m. The first tranche of sites is expected to result in the development of 360 new homes within Gateshead.

16. Trading operations

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

2012/13 (Profits) / Losses £000s		2013/14		
		Income £000s	Expenditure £000s	(Profits) / Losses £000s
(1,733)	Construction	(45,204)	44,225	(979)
(279)	Cleaning of Buildings	(5,112)	4,868	(244)
148	Security	(1,080)	1,049	(31)
(580)	School Meals	(5,929)	5,449	(480)
(777)	Fleet	(7,564)	6,903	(661)
114	Civic Restaurants	(899)	991	92
(11)	IAS 19 pension adjustment	0	(8)	(8)
(3,118)		(65,788)	63,477	(2,311)

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). 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.

Note 17 continued...

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

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

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

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service revenue account.

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

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

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

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

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

Valuations are carried out by the Council's valuation officer, D Gillbanks BSc(Hons) FRICS, as at 1 April in the reporting period.

Note 17 continued...

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*¹⁷ requires depreciation to be provided for all non-current assets with a finite useful life (which is determined at the time of acquisition or revaluation) according to the following policy:
 - A full year's depreciation is charged on newly acquired assets in the year of acquisition, although assets in the course of construction are not depreciated until they are brought into use;
 - Depreciation is calculated using the straight-line method; and
 - Generally, assets are depreciated in accordance with the following estimate of useful lives:

▪ Computers and other equipment	3-10 years
▪ Vehicles (depending on make, model and use)	3-10 years
▪ Buildings (depending on use, construction type and condition)	20-50 years
▪ Infrastructure assets (excluding Millennium Bridge below)	30 years
▪ Gateshead Millennium Bridge	120 years
▪ Council dwellings	50 years

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

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

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

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

¹⁷ See <http://www.ifrs.org/Documents/IAS16.pdf>

Note 17 continued...

	Other land and buildings at fair value £000s	Assets under construction at cost £000s	Vehicles, plant and equipment at cost £000s	Equipment under finance lease at cost £000s	Council dwellings at fair value £000s	Infrastructure at cost £000s	Community assets at cost £000s	Surplus assets £000s	Total £000s
Cost or valuation									
Balance at 1 April 2012	446,925	30,582	64,842	350	677,000	138,064	4,515	82,821	1,445,099
Reclassifications	27,920	(30,307)	0	0	(2,115)	0	(1)	972	(3,531)
Additions	15,059	448	3,444	0	15,430	8,259	166	2,429	45,235
Disposals	(2,179)	0	(1,670)	0	(1,653)	0	0	0	(5,502)
Revaluation increase/(decrease) to Revaluation Reserve	5,432	0	0	0	(4,917)	0	0	82	597
Revaluation increase/(decrease) to Comprehensive I&E	(45,690)	0	0	0	0	0	0	(40)	(45,730)
Balance at 1 April 2013	447,467	723	66,616	350	683,745	146,323	4,680	86,264	1,436,168
Reclassifications	10,706	(9)	(1)	0	(99)	0	0	(15,139)	(4,542)
Additions	14,516	589	7,868	0	22,298	6,373	259	2,209	54,112
Donations	2,950	0	0	0	0	0	0	0	2,950
Disposals	(17,500)	0	(3,322)	0	(5,189)	0	0	(5,986)	(31,997)
Revaluation increase / (decrease) recognised in the Revaluation Reserve	9,369	0	0	0	(5,935)	0	0	(3,064)	370
Revaluation increase / (decrease) recognised in surplus / deficit on provision of services	(7,026)	0	0	0	(41,008)	0	0	(12,251)	(60,285)
Impairment recognised in the Revaluation Reserve	(374)	0	0	0	(194)	0	0	0	(568)
Impairment recognised in surplus / deficit on provision of services	(1,273)	0	0	0	(11,364)	0	0	(2,176)	(14,813)
Balance at 31 March 2014	458,835	1,303	71,161	350	642,254	152,696	4,939	49,857	1,381,395

Note 17 continued...

	Other land and buildings at fair value £000s	Assets under construction at cost £000s	Vehicles, plant and equipment at cost £000s	Equipment under finance lease at cost £000s	Council dwellings at fair value £000s	Infrastructure at cost £000s	Community assets at cost £000s	Surplus assets £000s	Total £000s
Accumulated Depreciation and Impairment									
Balance at 1 April 2012	(30,048)	0	(46,872)	(251)	(12,186)	(33,656)	0	(710)	(123,723)
Reclassifications	143	0	0	0	38	0	0	(15)	166
Disposals	163	0	1,662	0	29	0	0	0	1,854
Depreciation written out to Revaluation Reserve on Revaluation	3,123	0	0	0	12,119	0	0	29	15,271
Depreciation written out to Comprehensive I&E on Revaluation	7,442	0	0	0	0	0	0	0	7,442
Depreciation	(14,618)	0	(5,937)	(99)	(12,307)	(3,777)	0	(772)	(37,510)
Balance at 1 April 2013	(33,795)	0	(51,147)	(350)	(12,307)	(37,433)	0	(1,468)	(136,500)
Reclassifications	719	0	(1)	0	1	(1)	0	(582)	136
Disposals	647	0	2,397	0	93	0	0	286	3,423
Depreciation written out to Revaluation Reserve on revaluation	6,021	0	0	0	1,441	0	0	329	7,791
Depreciation written out to surplus / deficit on provision of services upon revaluation	4,658	0	0	0	10,373	0	0	416	15,447
Depreciation	(14,834)	0	(5,292)	0	(11,569)	(4,017)	0	(396)	(36,108)
Impairment losses recognised in the Revaluation Reserve	6	0	0	0	0	0	0	0	6
Impairment recognised in surplus / deficit on provision of services	278	0	0	0	398	0	0	223	899
Balance at 31 March 2014	(36,300)	0	(54,043)	(350)	(11,570)	(41,451)	0	(1,192)	(144,906)

	Other land and buildings at fair value £000s	Assets under construction at cost £000s	Vehicles, plant and equipment at cost £000s	Equipment under finance lease at cost £000s	Council dwellings at fair value £000s	Infrastructure at cost £000s	Community assets at cost £000s	Surplus assets £000s	Total £000s
Net Book Value at 31/03/2013	413,672	723	15,469	0	671,438	108,890	4,680	84,796	1,299,668
Net Book Value at 31/03/2014	422,535	1,303	17,118	0	630,684	111,245	4,939	48,665	1,236,489

Note 17 continued...

Revaluations

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

A full review of the Council's property assets was undertaken at the end of 2008/09 to assess the impact of the economic downturn on the Council's assets. The valuations in subsequent years have been completed as part of the rolling programme and the total valuations are summarised in the table below for the relevant year:

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

Note that the Comprehensive Income and Expenditure Statement (CIES) includes (£7.916m) relating to the surplus / deficit on asset revaluations. These are items that do not go through the surplus / deficit on provision of service; rather, they are charged to *Other Comprehensive Income and Expenditure* and reversed in the Movement in Reserves Statement. In addition, the CIES (within *Cost of Services*) also includes (£6.850m) relating to in-year reversals of previous revaluation losses within *Other Land and Buildings*.

18. Heritage assets

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

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

- **Civic Regalia:** These items are reported in the Balance Sheet at insurance valuation which is based on market values and is reviewed annually. The collection is relatively static and acquisitions and donations are rare. Where they do occur they are initially recognised at cost and donations are recognised at valuation with reference to appropriate commercial markets.
- **Museum Collections:** Any items over £10,000 are reported in the Balance Sheet at insurance valuation (2012/13 valuation, reviewed in 2013/14) which is based on market values and is reviewed annually. Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation with reference to appropriate commercial markets for the paintings using the most relevant and recent information from sales at auctions.
- **Public Artwork:** Any items over £10,000 are reported in the Balance Sheet (2012/13 valuation, reviewed in 2013/14) for any significant items where possible, or by valuations provided by the Council's Public Art Curator, which are informed by

Note 18 continued...

commercial markets and the estimated replacement cost. 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.

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

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

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

The disposal of heritage assets is rare, but will also 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 to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital receipts.

Note information: the Council has identified a total of 293 heritage assets, held to increase the knowledge, understanding and appreciation of the Council's history and local area. These have been split into three distinct categories as follows:

Civic Regalia: the collection includes a number of artefacts such as the Mayoral chains, the Mace and various items of silverware.

Museum Collections: the museum collections include paintings (both oil and watercolour), sculptures and other artefacts and are managed by Tyne & Wear Archives and Museums on behalf of the Council. The collection includes two paintings by Hans Schäufelein from the 16th Century valued at £1.7m on display at the Shipley Art Gallery¹⁸; a full list of exhibition listings and the Tyne and Wear Museums' access policy is available on their website.

Public Artwork: the collection includes a number of sculptures on display throughout Gateshead, including the Angel of the North.

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

	Public Artwork £000s	Civic Regalia £000s	Museum Collections £000s	Total £000s
Cost or Valuation 2012/13:				
1 April 2012	6,752	306	13,162	20,220
Upward Revaluations	0	0	686	686
31 March 2013	6,752	306	13,848	20,906
Cost or Valuation 2013/14:				
1 April 2013	6,752	306	13,848	20,906
Additions	49	0	14	63
Disposals	(40)	0	0	(40)
31 March 2014	6,761	306	13,862	20,929

¹⁸ <http://www.twmuseums.org.uk/shipley-art-gallery.html> Page 78

19. Capital commitments and capital financing

Redemption of debt: accounting policy

The Council is required by statute to set aside a minimum revenue provision (MRP; see also Note 6a), for the repayment of debt for General Fund services. Provision is made for principal repayments by charging a MRP calculated in accordance with CIPFA's Prudential Code (which follows the provisions of the Local Government Act 2003¹⁹).

Capital commitments

At 31 March 2014, the Council had £14.3m of outstanding (budgeted) capital commitments for the construction or enhancement of property, plant and equipment. Similar commitments as at 31 March 2013 amounted to £14.0m. These relate to the completion of the following schemes:

▪ Investment in Campground household waste recycling centre	£8.0m
▪ Street Lighting LED Lantern Improvements	£3.5m
▪ Local Pinch Points Investment at Kingsway	£2.6m
▪ District Energy Network Development	£0.2m

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

2012/13 £000s		2013/14 £000s
642,268	Opening Capital Financing Requirement	642,722
	<u>Capital investment</u>	
45,235	Property, plant and equipment	54,112
0	Heritage assets	49
1,086	Intangible assets	1,274
80	Assets held for sale	10
4,851	Revenue expenditure funded from capital under statute	4,754
1,501	Long-term debtors relating to capital transactions	0
252	Acquisition of share capital	0
	<u>Sources of finance</u>	
(3,564)	Capital receipts	(5,172)
(34,698)	Government grants and other contributions	(38,996)
(283)	Direct revenue contributions	(736)
(14,006)	MRP/loans fund principal	(13,763)
0	Other adjustments (PFI liability transfer)	0
642,722	Closing capital financing requirement	644,254
2012/13 £000s		2013/14 £000s
	Explanation of movements in year	
(7,441)	Increase/(decrease) in underlying need to borrowing (supported)	(5,797)
8,566	Increase in underlying need to borrowing (unsupported)	7,944
(94)	Assets acquired under finance leases	0
(577)	Assets acquired under PFI/PPP contracts	(615)
454	Increase/(decrease) in capital financing requirement	1,532

¹⁹ See <http://www.legislation.gov.uk/ukpga/2003/26/content>

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).

Schools PFI

a) General

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.

b) Analysis of movements in PFI asset values

The values of the school buildings changed as follows during the year:

31/03/13 £000s		31/03/14 £000s
23,081	Opening value:	22,053
	Movements:	
141	Additions	49
(531)	Downward revaluations	0
(638)	Depreciation	(446)
22,053	Closing value:	21,656

Note 20 continued...

c) Analysis of movements in PFI liabilities

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

Schools PFI - liabilities		
31/03/13 £000s		31/03/14 £000s
(27,000)	Opening value:	(26,423)
577	Repayment of capital	615
(26,423)	Closing value:	(25,808)

d) Analysis of unitary charge payments outstanding

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

Schools PFI - unitary charge payments remaining				
	Repayment of Liability £000s	Interest Payment £000s	Service Charges £000s	Total £000s
– within 1 year	656	1,709	2,279	4,644
– within 2-5 years	3,088	6,372	8,857	18,317
– within 6-10 years	5,159	6,666	12,024	23,849
– within 11-15 years	7,109	4,716	13,212	25,037
– within 16-20 years	9,796	2,029	12,185	24,010
	25,808	21,492	48,557	95,857

Note that the value of contingent rents (rents that are not fixed – in this case, those due to a general increase in prices²⁰) within the arrangement were as follows:

Contingent Rentals	
	£000s
2012/13 value	836
2013/14 value	884

e) Significant contractual information

Significant terms of the arrangement

Market testing: from 1 April 2013 onwards, five-yearly market testing exercises must be carried out by an independent third party on behalf of PSG. Should the service costs (grounds maintenance, cleaning and 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.

²⁰ The Schools PFI contract is inflated annually by RPIx, the retail price index excluding mortgage payments

Note 20 continued...

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.

Rights to use specified assets

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).

Rights to expect provision of services

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

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

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 Lord Lawson costs are fully reimbursed).

Renewal and termination options

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.

Other rights and obligations

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

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

Note 20 continued...

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

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:

31/03/13 £000s		31/03/14 £000s
441	Cash held by officers	383
(7,404)	Bank overdraft	(14,010)
13,300	Short-term deposits	21,267
6,337	Total cash and cash equivalents	7,640

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 2013 £000s			31 March 2014 £000s	
Less than 1 year	More than 1 year		Less than 1 year	More than 1 year
10,387	0	Central government bodies	10,675	0
1,512	0	Other local authorities	1,675	0
2,780	0	NHS bodies	2,211	0
1,320	0	Other public bodies	2,004	0
24,068	16,755	Bodies external to government	33,475	16,496
40,067	16,755		50,040	16,496

The debtors' balance represents the amount due to the Council from customers or grants outstanding from funding bodies. A bad debt provision of £10.560m is held within the £33.475m figure above to provide against the risk of default on debt outstanding from trade, or non-government, debtors (2012/13: £5.337m). The figure has increased due to the transfer of responsibilities for business rates from central government, and following review of required provisions.

23. Creditors

These amounts represent sums owed to a number of sources, such as other local authorities and government departments. It also includes income received in advance, such as council tax relating to 2014/15:

31 March 2013 £000s			31 March 2014 £000s	
Less than 1 year	More than 1 year		Less than 1 year	More than 1 year
(9,727)	0	Central government bodies	(13,370)	0
(2,344)	0	Other local authorities	(3,129)	0
(1,719)	0	NHS bodies	(4,847)	0
(1,583)	0	Other public bodies	(463)	0
(36,542)	(25,992)	Bodies external to government	(40,307)	(25,355)
(51,915)	(25,992)		(62,116)	(25,355)

24. Contingent liabilities

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

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

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

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

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

Baltic Business Quarter: the Council's agreement with Terrace Hill, the Council's development partner in the Quarter, came to an end in 2013/14. Under the agreement's terms, there may be amounts owed to or from Terrace Hill. Potential liabilities have yet to be discussed and agreed; as such, no estimate can currently be made.

25. Employee benefits

Post-employment benefits (pensions)

As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits. These provide defined benefits to members (retirement lump sums and pensions), earned as employees worked 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)²¹. It provides teachers with defined benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of member's pensionable salaries. The TPA uses a notional fund as the basis for calculating the employers' contribution rate paid by each authority. As such, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees.

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

In 2013/14, the Council paid £6.013m to the TPA in respect of teachers' retirement benefits, representing 10.1% of pensionable pay (the figures for 2012/13 were £6.291m and 11.7%). In addition, the Council is responsible for all pension payments relating to added years it has awarded, together with related increases. In 2013/14, these amounted to £3.587m, representing 6.0% of pensionable pay (£3.596m and 6.7% in 2012/13).

c. Defined benefit plan: Tyne and Wear Pension Fund

The Tyne and Wear Pension Fund²², part of the Local Government Pension Scheme, is administered by South Tyneside Council. This is a funded, defined benefit final salary scheme, meaning that the Council and employees pay contributions into the fund calculated at a level estimated to balance the liabilities with investment assets:

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

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

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

²¹ See www.teacherspensions.co.uk/

²² See www.twpf.info

Note 25 continued...

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

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

In 2013/14, the Council paid £28.937m (£28.260m in 2012/13) to the Pension Fund in respect of pension contributions, representing 14.7% of pensionable pay (14.7% in 2012/13) and early retirement strain on the fund payments.

The scheme is accrued in accordance with the requirements of International Accounting Standard 19 *Employee Benefits*²³ (IAS 19). This accounts for retirement benefits when they are committed to be given, even if the actual giving is many years into the future. IAS 19 also requires the inclusion of the Council's attributable share of the fund's assets and liabilities. Further information on the Tyne and Wear Pension Fund can be found in their Annual Report. This is available upon request from South Tyneside Council.

Transactions relating to retirement benefits

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

²³ See www.ifrs.org/Documents/IAS19.pdf

Note 25 continued...

Charges to the Comprehensive Income & Expenditure Statement				
	Funded Liabilities		Unfunded Liabilities	
	31/03/13 £m Restated	31/03/14 £m	31/03/13 £m Restated	31/03/14 £m
Comprehensive Income & Expenditure Statement (CIES)				
Cost of Services:				
Current service cost	23.47	27.32	0.00	0.00
Past service cost (incl. curtailments)	1.50	1.54	2.01	7.32
Settlement cost	(0.71)	0.00	0.00	0.00
Financing and Investment Income and Expenditure:				
Interest on net defined benefit liability/(asset)	18.85	19.31	3.98	3.86
Pension expense charged to Surplus/Deficit on Provision of Services	43.11	48.17	5.99	11.18
Pension expense charged to Other Comprehensive Income and Expenditure:				
Remeasurement of the net defined benefit liability:				
• Return on plan assets	(47.90)	13.23	0.00	0.00
• Actuarial (gains)/losses due to changes in financial assumptions	67.99	(76.97)	7.39	(5.40)
• Actuarial (gains)/losses due to changes in demographic assumptions	0.00	(9.93)	0.00	2.72
• Actuarial (gains)/losses due to liability experience	(1.23)	(37.53)	(3.20)	0.09
Total amount charged to Other Comprehensive Income and Expenditure	18.86	(111.20)	4.19	(2.59)
Total amount recognised charged to the CIES	61.97	(63.03)	10.18	8.59

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2014 is a loss of £337.21m.

Movement in Reserves Charges				
	Funded Liabilities		Unfunded Liabilities	
	31/03/13 RESTATED £m	31/03/14 £m	31/03/13 RESTATED £m	31/03/14 £m
Movement in Reserves Statement				
Net charges made for retirement benefits in accordance with the Code	16.82	21.26	0.79	5.57
Actual amount charged against the General Fund balance for pension in the year				
Employer contributions payable to the scheme	26.31	26.91		
Retirement benefits payable to pensioners			5.20	5.61

Note 25 continued...

Assets and liabilities in relation to retirement benefits

Reconciliation of the present value of Fund liabilities (defined benefit obligation)				
	Funded Liabilities		Unfunded Liabilities	
	2012/13 £m Restated	2013/14 £m	2012/13 £m Restated	2013/14 £m
Opening defined benefit obligation at 1 April	1,066.01	1,188.04	88.21	93.19
Current service cost	23.47	27.32	0.00	0.00
Interest expense on defined benefit obligation	49.58	51.65	3.98	3.86
Contributions from employees (Fund participants)	6.49	6.69	0.00	0.00
Remeasurement (gains) and losses:				
- Actuarial (gains)/losses on liabilities - financial assumptions	67.99	(76.97)	7.39	(5.40)
- Actuarial (gains)/losses on liabilities - demographic assumptions	0.00	(9.93)	0.00	2.72
- Actuarial (gains)/losses on liabilities - experience	(1.23)	(37.53)	(3.20)	0.09
Net benefits paid out	(23.80)	(35.46)	(5.20)	(5.61)
Past service cost (including curtailments)	1.50	1.54	2.01	7.32
Settlements (liabilities extinguished)	(1.97)	0.00	0.00	0.00
Closing defined benefit obligation at 31 March	1,188.04	1,115.35	93.19	96.17

Reconciliation of fair value of the scheme assets:

Reconciliation of the movements in the fair value of Fund assets				
	Funded Liabilities		Unfunded Liabilities	
	2012/13 £m Restated	2013/14 £m	2012/13 £m Restated	2013/14 £m
Opening fair value of Fund assets	649.30	735.67	0.00	0.00
Interest income on assets	30.73	32.34	0.00	0.00
Remeasurement gains and (losses) on assets	47.90	(13.23)	0.00	0.00
Employer contributions	26.31	26.91	5.20	5.61
Employee contributions	6.49	6.69	0.00	0.00
Net benefits paid out	(23.80)	(35.46)	(5.20)	(5.61)
Settlements	(1.26)	0.00	0.00	0.00
Closing fair value of Fund assets	735.67	752.92	0.00	0.00

The actual return on scheme assets in the year was a gain of £19.11m (£78.63m gain in 2012/13).

Note 25 continued...

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

Asset allocation				
	31/03/13	31/03/14		
	Total	Quoted	Unquoted	Total
Equity investments	68.0%	58.1%	8.7%	66.8%
Property	9.0%	0.0%	8.5%	8.5%
Government bonds	7.0%	3.5%	0.0%	3.5%
Corporate bonds	11.0%	11.5%	0.0%	11.5%
Cash	1.6%	2.9%	0.0%	2.9%
Other assets	3.4%	5.0%	1.8%	6.8%
	100.0%	81.0%	19.0%	100.0%

Scheme history of gains and losses

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

Pension assets and liabilities recognised in the Balance Sheet		
	2012/13	2013/14
	£m	£m
Funded:		
Fair value of Fund assets	735.67	752.92
Present value of the funded defined benefit obligation	1,188.04	1,115.35
	(452.37)	(362.43)
Unfunded:		
Present value of the unfunded defined benefit obligation	(93.19)	(96.17)
Asset / (liability) recognised on Balance Sheet	(545.56)	(458.60)

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 2015 are estimated to be £27.23m. In addition, strain on the fund contributions may be required. It is also expected that the Council will pay £5.88m directly to beneficiaries.

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

Active members	37%
Deferred pensioners	11%
Pensioners	52%

Note 25 continued...

Actuarial assumptions

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

A building block approach is employed in determining the rate of return on fund assets. Historic markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out in the assumption table below. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the fund at 31 March 2014:

Principal assumptions				
	Funded Liabilities		Unfunded Liabilities	
	12/13	13/14	12/13	13/14
Financial assumptions (% per annum)				
Discount rate for Fund liabilities	4.4%	4.3%	4.1%	4.2%
Rate of inflation - RPI	3.6%	3.4%	3.5%	3.2%
Rate of inflation - CPI	2.7%	2.4%	2.6%	2.2%
Rate of increase to pensions in payment	2.7%	2.4%	2.6%	2.2%
Rate of increase to deferred pensions	2.7%	2.4%	N/A	N/A
Rate of general increase in salaries	4.6%	3.9%	N/A	N/A
Mortality assumptions				
<i>Longevity at 65 for current pensioners:</i>				
Men	21.7	23.0	21.7	23.0
Women	23.9	24.6	23.9	24.6
<i>Longevity at 65 for future pensioners (currently aged 45):</i>				
Men	23.5	25.0	N/A	N/A
Women	25.8	26.9	N/A	N/A
Commutation				
2013/14: Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 75% of the permitted maximum.				
2012/13: Each member assumed to exchange 75% of the maximum amount permitted of their post 31 March 2010 pension entitlements (50% pre 1 April 2010) for additional lump sum.				

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 2014 and the projected service cost for the year ending 31 March 2015 is set out below:

Note 25 continued...

Sensitivity analysis		
Funded LGPS benefits		
Discount rate assumption		
Adjustment to discount rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligation (£m)	1,095.2	1,135.9
% change in present value of total obligation	-1.8%	1.8%
Projected service cost (£m)	21.14	22.51
Approximate % change in projected service cost	-3.1%	3.2%
Rate of general increase in salaries		
Adjustment to salary rate increase	+0.1% p.a.	-0.1% p.a.
Present value of total obligation (£m)	1,120.9	1,109.8
% change in present value of total obligation	0.5%	-0.5%
Projected service cost (£m)	21.82	21.82
Approximate % change in projected service cost	0.0%	0.0%
Rate of increase to pensions in payment and deferred pensions assumption and rate of revaluation of pension accounts		
Adjustment to pension increase rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligation (£m)	1,130.0	1,101.0
% change in present value of total obligation	1.3%	-1.3%
Projected service cost (£m)	22.53	21.11
Approximate % change in projected service cost	3.3%	-3.2%
Post retirement mortality assumption		
Adjustment to mortality age rating assumption*	- 1 year	+ 1 year
Present value of total obligation (£m)	1,141.3	1,089.2
% change in present value of total obligation	2.3%	-2.3%
Projected service cost (£m)	22.50	21.12
Approximate % change in projected service cost	3.1%	-3.2%
*A rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them		

d. Discretionary benefits

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

26. Financial instruments**a. Accounting policies****Financial assets**

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

Note 26 continued...

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

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

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

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

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

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

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

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

Financial liabilities

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

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

Note 26 continued...

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

Fair value

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

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

External interest

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

b. Nature and extent of risk arising from financial instruments

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

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

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

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

Note 26 continued...

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

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

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

Credit risk: Credit risk arises from deposits with banks, building societies, other local authorities and the government's Debt Management Office²⁴, as well as credit exposures to the Council's customers. This risk is minimised through the annual investment strategy, which requires that deposits are not placed with financial institutions that fail to meet the agreed minimum credit criteria. The annual investment strategy also stipulates the maximum amount and time limits in respect of each financial institution.

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

Gross amounts due to the Council from financial assets				
2012/13		2013/14		
Net Value £m		Gross value £m	Impairment Value £m	Net Value £m
36.751	Deposits with financial institutions	56.379	(0.137)	56.242
16.755	Long term debtors	16.496	0.000	16.496
30.381	Debtors	43.391	(6.732)	36.659

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

In addition, the Council's Balance Sheet at 31 March 2014 held £59.732m relating to gross amounts owed for financial liabilities, representing amounts owed to customers (excluding council tax and business rates). No impairment was required to this figure.

²⁴ See <http://www.dmo.gov.uk/>

Note 26 continued...

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

Spread of credit risk		
2012/13 £m	Rating	2013/14 £m
24.456	AAA	46.242
4.000	AA-	5.000
0.000	A+	0.000
8.000	A	5.000
36.456	Total (excluding impaired investments)	56.242

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

The Council has ready access to borrowing from the money markets to cover any day-to-day cash flow need, and the Public Work Loans Board (PWLB) and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992²⁵, 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 2014, all of the Council's deposits were due to mature within 364 days.

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

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

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

²⁵ See <http://www.legislation.gov.uk/ukpga/1992/14/content>

Note 26 continued...

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

Maturity profile				
Maturity Period	Approved limits	31/03/2013	Approved limits	31/03/2014
	%	%	%	%
< 1 year	20	6.35	20	12.26
1 – 2 years	20	10.7	20	7.21
2 – 5 years	60	23.78	60	21.33
5 – 10 years	60	15.64	60	15.36
+ 10 years	90	43.53	90	43.84

Market risk

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

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

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

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

Interest rate sensitivity analysis		
2012/13 £m		2013/14 £m
0.350	Increase in interest payable on variable rate borrowing	0.234
(0.233)	Increase in interest receivable on variable rate investments	(0.352)
0.117	Impact on (surplus)/deficit	(0.118)
(0.031)	Decrease in fair value of fixed rate investments	(0.040)
92.014	Decrease in the fair value of fixed rate borrowing	67.649

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

Note 26 continued...

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

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

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

c. Financial instrument balances

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

Financial instrument balances				
	Short-term		Long-term	
	31/3/13 £000s	31/3/14 £000s	31/3/13 £000s	31/3/14 £000s
Financial liabilities at amortised cost	(92,124)	(136,908)	(529,118)	(503,685)
Total borrowing	(92,124)	(136,908)	(529,118)	(503,685)
Loans and receivables	36,903	56,303	0	0
Available-for-sale assets	0	0	5	5
Unquoted equity investment	0	0	11,583	11,583
Total investments	36,903	56,303	11,588	11,588

Analysis of financial liabilities at amortised cost

Analysis of financial liabilities at amortised cost			
Total outstanding at 31 March 2013 £000s	Source of loan	Interest rates payable	Total outstanding at 31 March 2014 £000s
(442,969)	Public Works Loans Board	2.95% - 13.75%	(449,355)
(127,894)	Other loan instruments	1.05% - 4.52%	(130,893)
(570,863)			(580,248)
(41,745)	An analysis of loan by maturity is:		(76,563)
	Short-term borrowing		
(60,433)	Maturing in 1 – 2 years		(41,366)
(134,344)	Maturing in 2 – 5 years		(122,452)
(88,375)	Maturing in 5 – 10 years		(88,200)
(245,966)	Maturing in more than 10 years		(251,667)
(529,118)	Long-term borrowing		(503,685)
(570,863)	Total borrowing		(580,248)

Note 26 continued...

d. Financial instruments gains and losses

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

Financial instrument gains and losses			
2012/13		2013/14	
£000s		£000s	
(882)	Interest and investment income	(2,010)	
27,454	Interest payable and similar charges	27,565	
26,572	Total	25,555	

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

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

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

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

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

Fair value of assets and liabilities carried at amortised cost				
	31 March 2013		31 March 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000s	£000s	£000s	£000s
PWLB debt	(442,969)	(506,594)	(449,355)	(484,126)
Non-PWLB debt	(127,894)	(124,254)	(130,893)	(121,132)
Total financial liabilities	(570,863)	(630,848)	(580,248)	(605,258)
Market loans < 1 year	23,307	23,372	35,036	35,049
Market loans > 1 year	0	0	0	0
Total financial assets	23,307	23,372	35,036	35,049

Note 26 continued...

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

Reconciliation of Balance Sheet items				
	Principal £000s	Impairment £000s	Accrued interest £000s	Total £000s
Short term investments 2013/14:				
Fixed-term deposits	35,000	0	36	35,036
Impaired investment	137	(137)	0	0
	35,137	(137)	36	35,036
Short term deposits (cash equivalents)	21,242	0	25	21,267
Total	56,379	(137)	61	56,303
Short term investments 2012/13:				
Fixed-term deposits	23,183	0	125	23,308
Impaired investment	604	(309)	0	295
	23,787	(309)	125	23,603
Short term deposits (cash equivalents)	13,274	0	26	13,300
Total	37,061	(309)	151	36,903

27. Events after the Balance Sheet date

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

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

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

28. Authorisation of Accounts for issue

The Council's Statement of Accounts for the financial year ended 31 March 2014 was approved by the Accounts Committee and authorised for issue on 29 September 2014.

Signed:



Date:

25/9/14

Darren Collins
Strategic Director, Finance & ICT

Signed:

Date:

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

Part 3: Supplementary Statements

Housing Revenue Account (HRA)

HRA Income and Expenditure Statement

2012/13 RESTATED £000s		2013/14 £000s	Note
	Expenditure:		
17,843	Repairs and maintenance	18,803	
15,930	Supervision and management	16,553	
5,035	Special services	4,363	
3,538	Rents, rates, taxes and other charges	2,935	
12,562	Depreciation and downward revaluation of non-current assets	54,675	5 & 6
341	Debt management charges	335	
624	Increased provision for bad or doubtful debts	358	
55,873		98,022	
	Income:		
(71,865)	Dwelling rents (gross)	(74,383)	
(1,435)	Non-dwelling rents (gross)	(1,417)	
(2,677)	Charges for services and facilities	(2,736)	
(279)	Leaseholders charges for services and facilities	(252)	
(950)	Contributions towards expenditure	(939)	
(36)	HRA subsidy receivable	0	
(77,242)		(79,727)	
(21,369)	Net Cost of HRA Services as included in the Council's Comprehensive Income and Expenditure Statement	24,075	
588	HRA services' share of Corporate and Democratic Core	667	
(20,781)	Net Income for HRA Services	18,962	
	HRA share of the operating income and expenditure included in the Council's Comprehensive Income and Expenditure Statement:		
(293)	(Gain) or loss on sale of HRA non-current assets	(1,265)	
17,719	Interest payable and similar charges	17,681	
(135)	HRA Interest received and investment income	(140)	
673	Pension interest cost and expected return on pension assets	622	
(1,481)	Capital grants and contributions	(839)	
(4,298)	(Surplus)/deficit for the year on HRA services	35,021	

Movement on the HRA Statement

£000s		£000s	Note
(15,171)	Balance on the HRA at 1 April 2013	(18,053)	
(4,298)	(Surplus) / deficit for the year on HRA Income and Expenditure Statement	35,021	
1,416	Adjustments between accounting basis and funding basis under regulations	(34,976)	1
(2,882)	Net decrease before transfers to reserves	45	
(2,882)	Decrease in year on the HRA	45	
(18,053)	Balance on the HRA at 31 March 2014	(18,008)	

Notes to the HRA

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

2012/13 RESTATED £000s		2013/14 £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:	
0	Downward revaluation of non-current assets	(41,602)
1,481	Capital grants and contributions	839
1	Accumulated Absences Account adjustment (IAS19)	1
293	Gain/ (loss) on sale of HRA non-current assets	1,265
(862)	HRA share of contributions to or from the pensions reserve	(885)
0	Revenue expenditure funded from capital under statute	(81)
0	Capital expenditure funded by the HRA	5,486
12,442	Transfer to the Major Repairs Reserve (see Note 7)	11,722
(12,442)	Transfer from the Capital Adjustment Account	(11,722)
913		(34,976)
	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:	
503	Amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	1
1,416	Total adjustments between accounting basis and funding basis under the legislative framework	(34,976)

2. Housing stock and Balance Sheet valuation

The number of council dwellings by type and valuation at 31 March 2014 was as follows:

01/04/13*	Lettable stock numbers:	31/03/14
11,679	Houses	11,475
5,422	Flats	5,275
3,099	Bungalows	3,097
20,200		19,847
£000s	Values:	£000s
671,438	Council dwellings	630,684
4,122	Other land and buildings	5,615
10	Vehicle, plant, furniture and equipment	0
675,570	Total Balance Sheet value of land, houses and other property in the HRA	636,299

* It should be noted that opening values are presented prior to any revaluations carried out during 2013/14 and taking effect from 1 April 2013.

3. Vacant possession value

The vacant possession value of the HRA dwellings at 1 April 2013 was £1.647bn. However, the existing use value for social housing (EUV-SH) at the same date was £0.642bn. The EUV-SH reflects the valuation for a property if it was sold with sitting tenants paying rents at less than open market rents and tenant's rights including the right to buy.

4. Capital expenditure

A summary of total capital expenditure on land, houses and other property within the HRA during 2013/14, broken down according to the sources of funding was as follows:

2012/13 £000s		2013/14 £000s
	Expenditure:	
15,430	Council dwellings	22,298
44	Other land and buildings	25
15,474	Total capital expenditure	22,323
	Funded by:	
(44)	Borrowing	(153)
(1,331)	Capital grants	(1,010)
0	Direct revenue financing	(5,486)
(14,099)	Major Repairs Reserve	(15,674)
(15,474)	Total funding	(22,323)

5. Depreciation

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

2012/13 £000s		2013/14 £000s
12,307	Council dwellings	11,569
113	Other land and buildings	152
22	Vehicles, plant, furniture and equipment	1
12,442	Total	11,722

6. Downward revaluations

The Council values its dwellings every year using the 'existing use value - social housing' basis. In 2013/14, the valuation process resulted in a charge to the HRA of £47.554m, as shown in the following table:

2012/13 £000s		2013/14 £000s
	Revaluation losses recognised in the HRA Income and Expenditure Statement:	
0	Council dwellings	29,590
120	Other land and buildings	1,352
	Impairments recognised in the HRA Income and Expenditure Statement:	
0	Council dwellings	12,012
120	Total	42,954

7. Major Repairs Reserve

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

2012/13 £000s		2013/14 £000s
(5,609)	Opening balance at 1 April	(3,952)
(12,442)	Amounts transferred to MRR during the year:	(11,722)
14,099	Capital expenditure on land, houses and other property	15,674
(3,952)	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*.

2012/13 £000s		2013/14 £000s
	Credit:	
(135)	Interest on notional cash balance	(140)
0	Impairments adjustment	(41,602)
(44)	Discounts for early repayment of debt	(40)
(179)		(41,782)
	Debit:	
17,719	Interest on loans	17,681
12,442	Depreciation	11,722
341	Debt management expenses	335
546	Premia for early repayment of debt	41
120	Impairment charges	42,954
31,168		72,733
30,989	Total item 8 debit	30,951

Collection Fund Statement

2012/13 £000s		2013/14 £000s			Note
		Business rates	Council tax	Total	
(95,790)	Income Income from council tax	0	(78,741)	(78,741)	2
(78,133)	Income from business rates	(87,772)	0	(87,772)	
0	Transitional protection payments	0	0	0	
0	Reconciliation adjustments	120	0	120	
(173,923)	Total income	(87,652)	(78,741)	(166,393)	
	Expenditure				
	Apportionment of previous year surplus:				
0	Gateshead Council	0	2,000	2,000	
0	Tyne and Wear Fire and Rescue Authority	0	101	101	
0	Northumbria Police and Crime Commissioner	0	116	116	
0		0	2,217	2,217	
	Precepts, demands and shares:				
77,840	Central Government	42,960	0	42,960	
85,395	Gateshead Council	42,110	67,498	109,608	
4,951	Tyne and Wear Fire and Rescue Authority	860	3,422	4,282	
4,328	Northumbria Police and Crime Commissioner	0	4,050	4,050	
0	Transitional protection payments payable	663	0	663	
172,514		86,593	74,970	161,563	
	Charges to Collection Fund:				
0	Write offs of uncollectable amounts	1,039	0	1,039	
0	Increase / (decrease) in bad debt provision	0	1,050	1,050	
0	Increase / (decrease) in provision for appeals	3,380	0	3,380	
293	Cost of collection	294	0	294	
0	Reconciliation adjustments	(198)	0	(198)	
(293)		4,515	1,050	5,565	
(1,116)	(Surplus) / deficit arising during the year	3,456	(504)	2,952	
(1,737)	(Surplus) / deficit brought forward 1 April	0	(2,853)	(2,853)	
(2,853)	(Surplus) / deficit carried forward 31 March	3,456	(3,357)	99	
	Attributable to:				
0	Central Government	1,723	0	1,723	
(2,573)	Gateshead Council	1,699	(3,023)	(1,324)	
(149)	Northumbria Police and Crime Commissioner	0	(181)	(181)	
(131)	Tyne and Wear Fire and Rescue Authority	34	(153)	(119)	
(2,853)		3,456	(3,357)	99	

Notes to the Collection Fund Statement

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

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

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

2012/13		2013/14	
45.8p	Rate in the pound	47.1p	
£210.830m	Total non-domestic rateable value	£216.509m	

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).

In 2013/14, the local government financing system was also revised with regard to council tax. Council tax benefit (£22.3m in 2012/13) is no longer payable by the Department for Work and Pensions; instead, a grant is now payable as part of Revenue Support Grant (but reduced by 10% in 2013/14).

The table below shows the calculation of the council tax base:

	Proportion of Band D Charge	Number of Properties		Band D Equivalent Properties	
		2012/13	2013/14	2012/13	2013/14
Band A - Up to £40,000 (disabled reductions)	5/9	134	55	75	31
Band A - Up to £40,000	6/9	46,943	30,959	31,295	20,639
Band B - £40,001 to £52,000	7/9	10,431	9,295	8,113	7,229
Band C - £52,001 to £68,000	8/9	13,289	12,748	11,813	11,332
Band D - £68,001 to £88,000	9/9	4,884	4,971	4,884	4,971
Band E - £88,001 to £120,000	11/9	1,950	1,758	2,383	2,149
Band F - £120,001 to £160,000	13/9	732	677	1,057	978
Band G - £160,001 to £320,000	15/9	335	275	558	458
Band H - Over £320,000	18/9	13	27	26	54
		78,711	60,765	60,204	47,841

	2012/13	2013/14
Council tax for a band D property	£1,600.04	£1,602.97

Part 4: Accompanying documents

Annual Governance Statement

approved by Audit and Standards Committee 26 June 2014

Scope of Responsibility

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

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

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

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

The Purpose of the Governance Framework

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

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

The governance framework has been in place at the Council for the year ended 31 March 2014 and up to the date of approval of the statement of accounts.

The governance framework

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

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

Community engagement and participation is also one of the priority areas within the Gateshead Communities Together Strategy, recently developed by the Gateshead Strategic Partnership, which aims to ensure communities are involved in decisions that will affect them.

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

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

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

Risk management is embedded in the Council through a Corporate Risk Management Policy which includes the requirement to identify strategic and operational risks, assess those risks for likelihood and impact, identify mitigating controls and allocate responsibility for those controls. The Council maintains and reviews a register of its business risks, linking them to strategic business objectives and assigning ownership for each risk. Risk management awareness is an integral part of the Council's employee/management competency framework and a comprehensive training programme has been developed for employees at all levels. The Chairman of the Audit Committee for 2013/14, Councillor John Hamilton is the designated Councillor Risk Champion for the Council. 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, Finance and ICT 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 (2010).

The Audit 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 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 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.

The Council has a Human Resources Strategy, which enables managers to realise the full potential of their team and employees participate in a regular review of their achievement and development needs. The Council's 'whistle blowing' procedure is set out in the employee handbook and contact details are on the web-site. Responsibilities for investigation of allegations are set out in the Council's Fraud and Corruption Policy which was updated in March 2012.

The Council is committed to the training and development of all of its Councillors. A Learning and Development Policy for Councillors was agreed by Cabinet and is included as part of the Councillor Handbook. 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. Tailored training courses are available for Councillors in specific areas including Local Government Finance, Ethics & Probity and Risk Management. An induction programme also exists for new Councillors.

A partnership register is maintained which is updated on an annual basis. Examples of partnerships on the register include the Gateshead Strategic Partnership, the Local Safeguarding Children Board and the Health and Social Care 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 for each of these.

Review of effectiveness

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

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

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

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

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

The Council's Code of Corporate Governance is reviewed regularly and was last approved by the Audit Committee on 10 March 2014. A report was presented to the Audit and Standards Committee of 23 June 2014 in which Members of the Cabinet identified that they felt reliance could be placed on the Council's corporate governance arrangements when carrying out their roles.

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. A report was submitted to the Audit and Standards Committee on 23 June 2014, which concluded that based on the self-assessments Service Directors agreed that effective controls were in place.

The Chief Internal Auditor reports to the Council's Strategic Director, Finance and ICT, but in order to ensure independence has direct and unfettered access to the Chief Executive, Strategic Director, Legal and Corporate Services (Monitoring Officer), and the Audit and

Standards Committee. A review of the effectiveness of Internal Audit, incorporating the Internal Audit Service and the Audit Committee, has been undertaken and was reported to the Audit and Standards Committee of 23 June 2014. This included an assessment of compliance with the CIPFA Statement on the Role of the Head of Internal Audit (2010). This concluded that the Council's system of internal audit is considered to be effective, which in turn allows the opinion of the Chief Internal Auditor to be relied upon.

The Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control, risk management and governance arrangements which was incorporated in the Annual Internal Audit Report to the Audit and Standards Committee on 23rd June 2014. This opinion is based on audit reviews undertaken during the year which found all systems reviewed to be operating well or satisfactorily, except in eleven 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 2013/14, as a result of the work of the Internal Audit Service.

The Annual Risk Management Report was presented to the Audit and Standards Committee on 23 June 2014, in which it was concluded that risk management arrangements are effective.

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

Assurance on the effectiveness of the Council's legal and regulatory framework has been provided by the Strategic Director, Legal and Corporate Services, 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 2013/14.

Assurance on the effectiveness of the Council's financial controls has been provided by the Strategic Director, Finance and ICT (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 (2010).

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

The results of the review of the Council's governance arrangements during 2013/14, including the internal control and risk management environment, have concluded that it is effective.

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

Signed by:



Leader of the Council

Signed by:



Chief Executive

Date: 26/06/2014

Date: 26 June 2014

Independent Auditor's Report

to the Members of Gateshead Council

Opinion on the Authority financial statements

We have audited the financial statements of Gateshead Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of Gateshead Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Strategic Director, Finance & ICT and the Auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Gateshead Council as at 31 March 2014 and of its expenditure and income for the year then ended; and

- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Opinion on other matters

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

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that, in all significant respects, Gateshead Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Certificate

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

Gareth Davies
For and on behalf of Mazars LLP, Appointed Auditors

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" legislation²⁶.

Capital Receipts Reserve see *Note 6b*.

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

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

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

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

Collection Fund Adjustment Account see *Note 6b*.

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

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

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

Constructive obligation is an obligation that derives from an authority's actions where: *by an established pattern of past practice, published policies or a sufficiently specific current statement, the authority has indicated to other parties that it will accept certain responsibilities,*

²⁶ See www.communities.gov.uk/housing/buyingselling/ownershipschemes/righttobuy

and as a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

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

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

Contingent liabilities are either:

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

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

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

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

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

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

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

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

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

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

Deferred Capital Receipts see *Note 6b*.

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

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

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

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

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

Earmarked Reserves see *Note 6b*.

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

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

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

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

- (a) methods of **depreciation**, such as straight-line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a **non-current asset** consumed in a period; and
- (b) different methods used to estimate the proportion of debts that will not be recovered, particularly where such methods consider a population as a whole rather than individual balances.

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

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

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

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

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

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

Financial Instruments Adjustment Account see *Note 6b*.

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

General Fund see *Note 6b*.

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

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

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

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

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

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

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

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

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

Impairment is the amount by which the carrying value of an asset (i.e. its current value in the accounts) exceeds its recoverable amount, caused either by a consumption of economic

benefits (e.g. obsolescence, damage or adverse change in statutory environment), or a general fall in prices.

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

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

Investments are separated into the following categories:

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

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

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

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

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

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

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

Local Government Pension Scheme (LGPS) is a nationwide public sector pension schemes for employees working in local government. It is administered locally for participating employers through many regional pension funds. The Tyne and Wear Pension Fund manages the Council's pension assets and liabilities²⁷.

Long-term contract is a contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as **long-term contracts** if they are sufficiently material to the activity of the period.

Major Repairs Allowance is the main housing subsidy for the Council, based on the cost of maintaining council dwellings.

²⁷ See <http://www.twpf.info> for further information

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.

Newcastle International Airport Reserve see Note 6b.

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

Operating lease is a lease other than a **finance lease**.

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

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

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

Pensions Reserve see Note 6b.

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

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

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

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

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

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

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

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

- a) A person or a close member of that person's family is related to a reporting entity if that person:
 - (i) has control or joint control over the reporting entity;
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

- b) An entity is related to a reporting entity if any of the following conditions apply:
 - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) Both entities are joint ventures of the same third party;
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
- (vi) The entity is controlled or jointly controlled by a person identified in (a); or
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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

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

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

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

- (i) an employer's decision to terminate an employee's employment before the normal retirement date; or
- (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

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

Revaluation Reserve see Note 6b.

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

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

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

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

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

Service Accounting Code of Practice (SeRCOP) provides guidance on financial reporting to ensure data consistency and comparability between local authorities. It was introduced by CIPFA in response to the demands placed upon local authorities to secure and demonstrate Best Value in the provision of services to the community.

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

- (a) A lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- (b) The purchase of an irrevocable annuity contract sufficient to cover vested benefits; and
- (c) The transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

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

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

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

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

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

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

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

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

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

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

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Audit and Standards Committee Chair:	Councillor Brian Coates

Web links:

Gateshead Council	www.gateshead.gov.uk
Gateshead Housing Company	www.gatesheadhousing.co.uk
Tyne & Wear Archives and Museums	www.twmuseums.org.uk
Association of North East Councils	www.northeastcouncils.gov.uk/
Traffic Accident Data Unit	www.northeast-tadu.gov.uk
Beamish Open Air Museum	www.beamish.org.uk
Northumbria Safer Roads Initiative	www.safespeedforlife.co.uk
Newcastle Airport	www.newcastleairport.com
Clean Tyne Project	www.gateshead.gov.uk/CleanTyne
North East Procurement Organisation	www.qtegov.com

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