

## ACCOUNTS COMMITTEE AGENDA

Friday, 26 July 2019 at 10.00 am in the Blaydon Room - Civic Centre

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From the Chief Executive, Sheena Ramsey

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Item Business

1 **Apologies**

2 **Minutes** (Pages 3 - 6)

The Committee is asked to approve as a correct record the minutes of the last meeting held on 27 July 2018.

3 **Audit Completion Report Year Ended 31 March 2019 and Gateshead Council Statement of Accounts 2018/19** (Pages 7 - 146)

Report of the Strategic Director, Corporate Resources

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## ACCOUNTS COMMITTEE MEETING

Friday, 27 July 2018

**PRESENT:** Councillor M Gannon (Chair)

Councillors: C Donovan and J Wallace

### 1 MINUTES

The minutes of the last meeting of the Committee held on 28 July 2017 were approved as a correct record and signed by the Chair.

### 2 **AUDIT COMPLETION REPORT YEAR ENDED 31 MARCH 2018 AND GATESHEAD COUNCIL STATEMENT OF ACCOUNTS 2017/18**

Consideration has been given to Mazars' Audit Completion Report 2016/17, including the Council's arrangements for securing economy, efficiency and effectiveness.

In line with best practice the Audit and Standards Committee has considered the Audit Completion Report prior to its submission to this Committee and has raised no issues.

The report's key messages are:

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

The report also includes a Letter of Representation to Mazars to be approved by the Committee prior to being signed by the Strategic Director, Corporate Resources following the issue of the Audit Opinion which is expected to be received by the end of July. The Statement of Accounts is materially consistent with the 2017/18 revenue and capital outturn reports considered by the Cabinet on 19 June 2018. Some minor adjustments and presentational changes have been made to the Statement submitted for audit on 31 May 2018 and the following misstatements were amended:

- **Pensions liability / Pension Reserve:** originally included group pension liability in the single entity accounts, this has now been reduced by £38.090m.
- **Comprehensive Income & Expenditure Statement (CIES):** amendments were made to the income and expenditure lines of the CIES due to recalculation of internal recharges. This did not affect the overall cost of services in the CIES.

- **Comprehensive Income & Expenditure Statement (CIES):** amendments were made to the expenditure line of the CIES in relation to pensions. As a result of the staff transfer from the Council to The Gateshead Housing Company on 1 April 2017, the net pension liability of the Council has decreased. This net reduction was included in the re-measurement of the net defined benefit liability in the CIES in the draft accounts. This has been transferred to the net cost of services in the final accounts to reflect the requirements of The Code with regard to such transfers. The decrease has been reflected as an exceptional item in the Net Cost of Services as the reduction is material and is the result of an infrequent event.

In addition, the following immaterial, non-trivial misstatements have been identified by Mazars (materiality was set at £11.568m for the Council and £11.949m for the Group and triviality at £0.347m for the Council and 0.358m for the Group), but have not been amended due to their immaterial nature:

- **Property valuations:** two errors were identified:  
Finance costs were included in error for asset revaluations using the Depreciated Replacement Value (DRC) carried out by the Council's external valuer, resulting in an overstatement of asset values of £4.949m.

The Council dwellings revaluation figure was overstated by £1.2m as a number of dwellings were included within the valuation which are no longer owned by the Council (62 transferred to Keelman Homes).

In response to a question, Mazars explained that Immaterial Non Trivial Misstatements are those items that are above the triviality threshold and below the headline material 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. Management have not amended the misstatements in the Statement of Accounts to reflect the adjustments.

Mazars updated verbally on a number of areas of outstanding work itemised in the Audit Completion Report as now complete with no issues raised, with the exception of final assurance being sought from KPMG on The Gateshead Housing Company Pension Liabilities included within the group accounts. It was noted that work is ongoing in reviewing the Council's approach to the consolidation of the accounts of all subsidiaries into the group accounts.

Mazars acknowledged the good team working between themselves and Council officers.

The Chair acknowledged the work of all those involved in the process which had concluded, that subject to final assurance received on the pensions liabilities issue, the Council's accounts and governance arrangements are in order and he reiterated the Audit Completion Report's key messages that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of

resources.

RESOLVED -

- (i) That the contents of Mazars' Audit Completion Report for the year ended 31 March 2018 and the updates received at the meeting be noted.
- (ii) That the issue of the Letter of Representation by the Strategic Director, Corporate Resources on behalf of the Council be approved.
- (iii) That the Council's Statement of Accounts for 2017/18 be approved for publication, subject to receipt of the opinion from Mazars on 31 July 2018.
- (iv) That the Strategic Director, Corporate Resources, following consultation with the Leader of the Council be given delegated power to publish the Statement of Accounts 2017/18, subject to the satisfactory outcome of the outstanding issues and receipt of the opinion from Mazars on 31 July 2018.

**Chair.....**

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**TITLE OF REPORT:**           **Audit Completion Report Year ended 31 March 2019  
and Statement of Accounts 2018/19**

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

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### **Purpose of the Report**

1. This report requests that the Accounts Committee:
  - note Mazars 2018/19 Audit Completion Report (Appendix 2) and update, including the Council's arrangements for securing economy, efficiency and effectiveness;
  - approve the issue of a Letter of Representation (Appendix 3);
  - approve the publication of the Council's 2018/19 Statement of Accounts (Appendix 4); and
  - Delegate authority to the Strategic Director, Corporate Resources, following consultation with the Leader, to authorise the Statement of Accounts for issue subject to the satisfactory outcome of the outstanding issues and receipt of the audit opinion from Mazars.

### **Background**

2. The annual audit of the Council's Statement of Accounts and use of resources has now been substantially completed for 2018/19 and Mazars has issued its report.
3. The Council successfully met the statutory requirement to prepare its draft accounts by 31 May and to prepare its audited accounts by 31 July.
4. 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.
5. Although Mazars anticipate completing their work in July, it should be noted that they also place reliance on the work of other auditors, including Ernst and Young (EY) work to give assurance on the Tyne and Wear Pension Fund (TWPF) disclosures in the Council's Statement of Accounts, and disclosures in relation to the Council's interest in the airport. They also need to review the work of KPMG in respect of external Audit of The Gateshead Housing Company (TGHC) Statement of Accounts in order to be able to place reliance on the TGHC figures incorporated into the Group Accounts.

- In relation to TGHC, KPMG are to provide Mazars with access to their files to allow the necessary Group Accounts work to be completed. It is anticipated that Mazars will receive sufficient assurance from KPMG's files by the statutory deadline of 31 July to allow the Council's accounts to be full signed off.
6. Mazars will provide a verbal update to the committee on outstanding audit work and issue an update letter on the outstanding issues by the end of July to enable them to provide an opinion.
  7. In line with best practice, the Audit and Standards Committee has considered the Audit Completion Report prior to submission to this Committee and had no issues to raise. The Audit and Standards Committee noted the above outstanding issues.

### **Proposal**

8. The proposal is for the Accounts Committee to note the contents of Mazars Audit Completion Report (and any additional updates provided to the Committee) including arrangements for securing economy, efficiency and effectiveness, approve the issue of the Letter of Representation by the Strategic Director, Corporate Resources on behalf of the Council, approve the Council's 2018/19 Statement of Accounts for publication, and delegate authority to the Strategic Director, Corporate Resources, following consultation with the Leader, to authorise the Statement of Accounts for issue subject to the satisfactory outcome of the outstanding issues and receipt of the audit opinion from Mazars.

### **Recommendations**

9. The Accounts Committee is requested to:
  - note the contents of Mazars Audit Completion Report and any update reports, and the covering report;
  - approve the issue of the Letter of Representation by the Strategic Director, Corporate Resources on behalf of the Council;
  - approve the Council's 2018/19 Statement of Accounts for publication; and
  - Delegate authority to the Strategic Director, Corporate Resources, following consultation with the Leader, to authorise the Statement of Accounts for issue subject to the satisfactory outcome of the outstanding issues and receipt of the audit opinion from Mazars.

for the following reason(s)

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

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**CONTACT: Darren Collins, x3582**

### Policy Context

1. The proposals in this report will contribute to achieving the objectives of the Council's Thrive agenda.

### Background

2. The annual audit of the Council's 2018/19 Statement of Accounts has now been substantially completed. Mazars is required to:
  - Issue a report to those charged with governance summarising its conclusions from their audit work following the Accounts Committee;
  - Report to those charged with governance certain matters before giving its opinion on the financial statements; and
  - Issue a conclusion relating to proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
3. The report covers:
  - The Council's financial statements; and
  - The Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

### Audit Completion Report

4. Mazars Audit Completion Report is included as Appendix 2 to this report. Subject to the outstanding issues, the key messages are as follows:
  - Audit Opinion: Mazars anticipate issuing an unqualified opinion on the Statement of Accounts, meaning that it is free from material error and has been prepared in accordance with proper practice; and
  - Use of resources: the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
5. The report also includes a Letter of Representation to Mazars (attached as Appendix 3), to be approved by the Committee prior to being signed by the Strategic Director, Corporate Resources following the issue of the audit opinion.
6. To provide a full picture of the economic and financial activities of the Council and its exposure to risk, the accounting statements of material subsidiaries and associate companies were consolidated with those of the Council. In 2018/19 the only material subsidiary was TGHC due to the pension liability.
7. The 2018/19 Statement of Accounts is shown at Appendix 4. The Statement of Accounts is materially consistent with the 2018/19 revenue and capital outturn reports considered by Cabinet on 25 June 2019. Some minor adjustments and presentational changes have been made to the Statement submitted for audit on 31 May 2019 and the following misstatements were amended:

- **Comprehensive Income and Expenditure Statement (CIES)** – removal of cash and cash equivalents belonging to other entities incorrectly posted against short-term deposits rather than bank overdraft. This was also adjusted for 2017/18.
- **Pensions Liability** - adjusted actuarial assumptions in relation to the McCloud judgement.
- **Comprehensive Income & Expenditure Statement (CIES):** amendments were made to the income and expenditure lines of the CIES due to recalculation of internal recharges and insurance charges. This did not affect the overall cost of services in the CIES.

8. In addition, the following immaterial, non-trivial misstatements have been identified by Mazars (materiality is £14.173m for the Council and £14.274m for the Group and triviality at £0.425m for the Council and £0.428m for the Group), but have not been amended due to their immaterial nature:

- **Changes to the Insurance provision** – being an overstatement specific to one individual insurance claim

9. None of the changes to the Statement of Accounts impact on the revenue and capital outturn positions reported to Cabinet, nor do they affect the position of any usable reserves. Management have not amended the misstatements in the Statement of Accounts to reflect the adjustments.

### **Consultation**

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

### **Alternative Options**

11. There are no alternative options proposed; the Council is obliged by statute to publish its annual Statement of Accounts.

### **Implications of Recommended Option**

12. **Resources:**

- Financial implications:** the Strategic Director, Corporate Resources confirms that the financial implications are as set out in this report and in the 2018/19 Statement of Accounts. There are no additional financial implications associated with the report.
- Human resources implication:** there are no human resources implications arising from this report.
- Property implications:** there are no property implications arising from this report.

13. **Risk management implications:** no additional risks have been identified in this report or in the completion of the 2018/19 Statement of Accounts.

14. **Equality and diversity implications:** there are no equality and diversity implications arising from this report.
15. **Crime and disorder implications:** there are no crime and disorder implications arising from this report.
16. **Sustainability implications:** there are no sustainability implications arising from this report.
17. **Health implications:** there are no health implications arising from this report.
18. **Human rights implications:** there are no human rights implications arising from this report.
19. **Area and ward implications:** there are no area and ward implications arising from this report.

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# Audit Completion Report

Gateshead Council

Year ending 31 March 2019

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1. Executive summary
2. Significant findings
3. Internal control recommendations
4. Summary of misstatements
5. Value for Money conclusion

Appendix A – Draft management representation letter

Appendix B – Draft auditor’s report

Appendix C – Independence

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited.

Reports and letters prepared by appointed auditors and addressed to the Council are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

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26 July 2019

Dear Members

**Audit Completion Report – Year ended 31 March 2019**

We are pleased to present our Audit Completion Report for the year ended 31 March 2019. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 4 March 2019. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

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

Yours faithfully

Signed: {{\_es\_.signer1:signature }}

Cameron Waddell  
For and on behalf of Mazars LLP

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VAT number: 839 8356 73

# 1. EXECUTIVE SUMMARY

## Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Gateshead Council ('the Council') for the year ended 31 March 2019, and forms the basis for discussion at the Accounts Committee meeting on 26 July 2019.

The detailed scope of our work as your appointed auditor for 2018/19 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

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

- Management override of control
- Revenue recognition
- Property, plant and equipment revaluation
- Defined benefit liability valuation

## Status of our work

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

### Opinion on the financial statements

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

### Value for Money conclusion

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

### Whole of Government Accounts (WGA)

We anticipate completing our work on your WGA submission, in line with the group instructions issued by the NAO, by the deadline of 13 September 2019. We anticipate reporting that the WGA submission is consistent with the audited financial statements

### Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts.

# 1. EXECUTIVE SUMMARY

## Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2019. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Property Plant & Equipment	●	Valuation work to be completed
Pensions	●	Work ongoing in relation to assurance from Pension Fund auditor
Valuation of Newcastle Airport	●	Work ongoing in relation to assessing valuation report from GT
Group Accounts	●	Work to be completed
Whole of Government Accounts	●	Work to be completed
Audit Closure Procedures	●	This includes internal consistency checks, agreeing amendments and post balance sheet events.

### Status

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

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

## Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in March 2019. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum other than -

- the identification of an area of management judgement in relation to the valuation of Newcastle Airport shares
- the appointment of our own expert to consider the valuation of Newcastle Airport shares (for which the Council obtained an external expert's valuation).

## Materiality

We set materiality at the planning stage of the audit at £12.995 million for the Council and £13.338 million for Group using a benchmark of 2% of Gross Revenue Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is [Xm], using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Accounts Committee), at [xm] based on [x%] of overall materiality.

## Misstatements and internal control recommendations

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

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



## 2. SIGNIFICANT FINDINGS

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

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

### Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks.

Significant risk	Description of the risk
<b>Management override of controls (relevant to Council and Group accounts)</b>	Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.
	<b>How we addressed this risk</b>
	We addressed this risk through performing audit work over: <ul style="list-style-type: none"><li>• Accounting estimates impacting on amounts included in the financial statements;</li><li>• Consideration of identified significant transactions outside the normal course of business; and</li><li>• Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li></ul>
	<b>Audit conclusion</b>
	Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
<b>Risk of fraud in revenue recognition in relation to fees, charges and other income (relevant to Council accounts only)</b>	<p>Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable. We have concluded that we can rebut the presumption of a revenue recognition risk for the majority of the Council's revenue streams, consisting largely of taxation, business rates and grant income.</p> <p>However, we do not feel that sufficient scope exists to rebut this risk in respect of the recognition of fees, charges and other income given the demand led nature of these revenue streams. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.</p>
	<p><b>How we addressed this risk</b></p> <p>We will:</p> <ul style="list-style-type: none"><li>• substantively test fees, charges and other income to ensure it has been correctly classified and recognised;</li><li>• test journals; and</li><li>• obtain direct confirmation of year-end bank balances and test the reconciliations to the ledger.</li></ul>
	<p><b>Audit conclusion</b></p> <p>Work is ongoing in this area</p>

Significant risk	Description of the risk
<b>Property, plant and equipment revaluation (relevant to Council accounts only)</b>	<p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of PPE.</p> <p>Although the Council employs an external valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the revaluation of PPE to be an area of risk.</p>
	<p><b>How we addressed this risk</b></p> <p>We will consider the Council's arrangements for ensuring that PPE values are reasonable and will use an external expert (Gerald Eve) to provide data to enable us to assess the reasonableness of the valuations provided by the Council's valuer. We will also assess the competence, skills and experience of the valuer.</p> <p>Where necessary we will also perform further audit procedures on individual assets to ensure that the basis and level of revaluation is appropriate.</p>
	<p><b>Audit conclusion</b></p> <p>Work is ongoing in this area</p>

## 2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Defined benefit liability valuation (relevant to Council and Group accounts)	The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.
	<b>How we addressed this risk</b>  We will discuss with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we will evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is carried out annually by the NAO's consulting actuary (PWC).
	<b>Audit conclusion</b>  Work is ongoing in this area

### Area of management judgement

Judgement: valuation of the Council's investment in Newcastle airport (relevant to Council accounts only)	Description of the management judgement
	The valuation of the Airport shares held by Gateshead Council (along with other North East Councils) had remained unchanged for some years.  In 2018/19, the Council has obtained an external valuation, from Grant Thornton via the lead Authority, South Tyneside MBC.
	<b>How our audit addressed this area of management judgement:</b>  We carried out a critical review of the basis of valuation of the Council's investment in Newcastle Airport, including the appointment of our own internal expert.
	<b>Audit conclusion</b>  Work is ongoing in this area

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Council's circumstances.

### Significant matters discussed with management

There have been significant issues this year relating to accounting for pensions. These issues are not specific to the Council, but are national issues impacting on all local government and related bodies, including police and fire. There have been three issues, but the most significant issue has been the impact of what is known as the McCloud judgement.

The nature and impact of the McCloud judgement was included as a Contingent Liability the Council's draft financial statements. It relates to claims of discrimination in respect of protections offered to some, but not all, pension scheme members as part of reforms to public sector pensions. In December 2018, the Court of Appeal ruled in a test case that this did amount to unlawful discrimination. At the time the Council was producing its draft financial statements, the Government intended to appeal to the Supreme Court and the outcome was uncertain.

During the audit period, the Government was not granted leave to appeal, meaning that some form of restitution across all public sector pension schemes seems more certain, requiring the estimated impact of this to be reflected in the pension disclosures in the financial statements, subject to materiality considerations.

The other two issues have been:

- Guaranteed Minimum Pension (GMP) indexation and equalisation, which relate to the move to a single-tier new State Pension and equalisation of the GMP benefits between males and females, which has been accounted for to varying degrees by each actuary; and
- Asset values, which relates to whether the estimation of assets by the actuary using asset values at the end of December 2018/end of January 2019 was accurate, given higher than expected returns in the final quarter of 2018/19.

For each of these issues, our approach has been to suggest that the Council and The Gateshead Housing Company (TGHC) engages with the actuary of the scheme, to assess the potential impact of these issues, to see whether the impact is material, and if so, to make amendments to the financial statements.

Whilst none of these issues impact on the Council in terms of a bottom-line impact on the General Fund balance, it will impact on TGHC and therefore the Group. In addition, both McCloud and GMP will place upward pressure on employers pension contributions reflecting an increased pension liability to recover over the life of the scheme.

We also discussed with Management the external valuation and the assumptions made in valuing the Airport shares.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### 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. Draft accounts were received from the Council on 31 May 2019 and were of a good quality.

### Wider responsibilities

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

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

We have not exercised any of these powers as part of our 2018/19 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. To date, we have received questions from one member of the public.

Our draft audit report, in full, is set out in Appendix B.

# 3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

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

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

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

### 3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

#### Other deficiencies in internal control – Level 2

##### Description of deficiency

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

##### Potential effects

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

##### Recommendation

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

##### Management response

It is proposed that the current Management Agreement is varied by way of an exchange of letters between the Council and TGHC setting out new performance metrics, reporting a monitoring processes in order to bring the monitoring of performance quickly in line with current requirements and best practice. The Council will continue to engage with the Regulator for Social Housing to determine whether their approval of the variations is required.

It is also proposed that a review of the current model for delivery of the management of the Council's housing stock be carried out. On completion, a further report will be presented to Cabinet on options for the future governance and delivery arrangements for the management of council housing prior to wider consultation.

In the meantime, Cabinet agreed on 16 July 2019 to the renewal of the Management Agreement for a period of up to two years to allow time for the review to be concluded and any revised arrangements implemented.

##### Description of deficiency

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

##### Potential effects

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

##### Recommendation

Create policies for privilege accounts.

##### Management response

Awaiting response



### 3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

#### Other deficiencies in internal control – Level 2

##### Description of deficiency

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

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

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##### Potential effects

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

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

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##### Recommendation

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

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##### Management response

Awaiting response

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# 3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

## Other recommendations on internal control – Level 3

### Description of deficiency

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

### Potential effects

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

### Recommendation

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

### Management response

Awaiting response

## Follow up of previous internal control points

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

### Description of deficiency

As part of our review of Active Directory users (the initial log in to the Council's systems) in March 2018 we identified 25 non system type generic i.e. unnamed accounts, of which 6 had been disabled so could not be used, 10 ,whilst being usable, had not been used in financial year 2017/18, leaving 9 accounts which had been used. None of those generic accounts had administrative access so limited scope as to what they could do on the system.

### Potential effects

- Inappropriate or fraudulent accesses to IT resource;
- Fraudulent or unintentional data alteration or entry; and
- Loss of the audit trail / logs of user actions.

### Recommendation

In order to avoid unauthorised access to the network, programs and data, we recommend closely monitoring the active accounts in order to ensure:

- Generic accounts are disabled when not used;
- User access is assigned on a need-to-have basis and disabled once it is not needed.

### 2018/19 update

Our work has identified that there is minimal risk of Active Directory generic accounts leading to problems as a separate log-in is required for these accounts. We therefore haven't repeated recommendation this year

## 4. SUMMARY OF MISSTATEMENTS

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

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

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

### Unadjusted misstatements 2018/19 as at 12 July 2019

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Insurance provision			450
	Cr: Communities and environment – expenditure	450		
	Being overprovision in relation to one specific insurance claim which will be settled in future years			

## 4. SUMMARY OF MISSTATEMENTS (CONTINUED)

### Adjusted misstatements 2018/19 as at 12 July 2019

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)

1	Dr: Current assets – cash and cash equivalents		4,669	
	Cr: Current liabilities – cash and cash equivalents			4,669

Removal of cash and cash equivalent balances belonging to other entities was incorrectly posted against short – term deposits rather than bank overdraft

2	Dr Care Wellbeing and Learning - expenditure	9,058		
	Dr Communities & environment - expenditure	4,494		
	Dr Corporate Resources - expenditure	3,919		
	Cr Corporate Service & Governance and Office of the Chief Executive – expenditure	1,590		
	CR Other corporate income and expenditure		1593	
	Dr Schools - expenditure	4794		
	CR Financing and investment income	2,788		
	Cr: Pension liability			25,050

To account for the impact on liabilities as at 31 March 2019 due to GMP indexation/equalisation and McCloud judgement

3	Dr: Care Wellbeing and Learning – income	2,384		
	Dr Communities & environment – income	950		
	Dr Corporate Service & Governance and Office of the Chief Executive - income	77		
	Cr Care Wellbeing and Learning – expenditure		2,563	
	Cr Communities & environment - expenditure		1,260	
	Dr Corporate Resources - expenditure	2,178		
	Cr Corporate Service & Governance and Office of the Chief Executive – expenditure		281	
	Cr Other corporate income and expenditure		14	
	Cr: Schools expenditure		118	
	Cr Financing and investment income		107	
	Cr Corporate Resources – expenditure		1,246	

Being correction required to remove insurance fund internal recharges

## 4. SUMMARY OF MISSTATEMENTS (CONTINUED)

### Adjusted misstatements 2018/19 as at 12 July 2019

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
4 Dr Communities & Environment - income	4,127			
Cr Corporate Resources - income		233		
Cr Corporate Service & Governance and Office of the Chief Executive - income		625		
Dr Care Wellbeing and Learning - expenditure	7			
Cr Communities & environment - expenditure		4,307		
Dr Corporate Resources - expenditure	111			
Cr Corporate Service & Governance and Office of the Chief Executive - expenditure	96			
Cr Other corporate income and expenditure - expenditure		36		
CR Housing revenue account - income		8		
Dr Housing revenue account - expenditure	868			

Being the removal of additional internal recharges in respect of Design capital and tech costs

### Adjusted misstatements 2017/18 as at 12 July 2019

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
Dr: Current assets – cash and cash equivalents			4,886	
Cr: Current liabilities – cash and cash equivalents				4,886

Removal of cash and cash equivalent balances belonging to other entities was incorrectly posted against short – term deposits rather than bank overdraft

## 4. SUMMARY OF MISSTATEMENTS (CONTINUED)

### Disclosure amendments as at 12 July 2019

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

- Note 10 – Discrepancies were identified in the table between client working paper and the Statement of Accounts. These were incorrect amounts disclosed in relation Government Grants for –
  - Department for Education;
  - Department for Work and Pensions; and
  - Department for Health and Social Care
- Note 14 – Audit testing identified that the incorrect Over £50k remuneration table had been included in draft accounts. The revised table was audited and found to be correct.
- Note 24 –Contingent Liability was disclosed in relation to the McCloud/GMP pensions issue. However, further information has now been received that will allow this issue to be quantified. See pensions issues above
- Note 26d - an error was identified in relation to the disclosure of maturity date of one loan resulting in the maturing in 5- 10 years line of the table being overstated by £6m and maturing in more than 10 years line of the table being understated by £6m.
- HRA I & E Note 8 Item 8 adjustment – The Note refers to "impairment charges" £13,879k however there are no impairments in year. This is a downward revaluation of non current assets and description has been changed.

## 5. VALUE FOR MONEY CONCLUSION

### Our approach to Value for Money

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

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

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

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

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>A formal Council Constitution is in place that sets out the scheme of delegation for decisions. This was updated in May 2019 and is available on the Council's website.</p> <p>The Council have clear decision-making processes in place along with clear governance structures which are reviewed regularly and updated when necessary to ensure they remain fit for purpose.</p> <p>The Annual Governance Statement provides a summary of the governance framework and management organisational arrangements in place to ensure informed decision-making and explains how assurance on the effectiveness of these arrangements in the year has been provided to the Audit and Standards Committee.</p> <p>The Council's system of internal control is subject to review by Internal Audit, who have given an opinion that there continues to be an adequate system of internal control in place.</p>	Yes
Sustainable resource deployment	<p>Council formally approved the 2018/19 budget of £203.466 million at the meeting on 22 February 2018. During the year, the Council received a further £3.477 million of funding, resulting in total available revenue funding of £206.943 million. The additional funding was mainly in relation to Government grants, including –</p> <ul style="list-style-type: none"> <li>• Adult Social Care winter funding - £1.133 million; and</li> <li>• Skills Funding Agency miscellaneous grants - £1.249 million</li> </ul> <p>Included within the approved budget was the requirement to achieve savings of £13.650 million during the year (see below for the results of our work on these savings).</p>	Yes

## 5. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>Cabinet received the 2018/19 outturn report on 25 June 2019. The report identified that the net expenditure position was £205.804 million, following a movement in earmarked reserves of £3.940 million which was in line with the revenue budget approved by members on 22 February 2018. This position extends the Council's track record of delivering increasingly challenging revenue outturns within budget.</p> <p>The Council ended 2018/19 with general reserves of £14.807 million, an increase of £1.139 million from 2017/18. A further £31.848 million was also held in earmarked general fund reserves in line with the level anticipated when the budget was approved.</p> <p>The level of general fund balances is approved annually by Council as part of the MTFS review. The Capital Strategy reflects the Council's priorities. All capital schemes are appraised and prioritised to ensure they reflect the key investment requirements in this strategy. The implications of the capital programme are appropriately reflected in the MTFS.</p> <p>In our Audit Strategy Memorandum we identified a significant risk in relation to this criteria. In order to assess the robustness of the Council's plans, we have:</p> <ul style="list-style-type: none"> <li>• completed testing of the achievement of the Council's monitoring and action plans for a sample of savings included in the budget;</li> <li>• reviewed the updated Medium-Term Financial Strategy;</li> <li>• reviewed budget monitoring reports and other finance updates; and</li> <li>• reviewed progress in identifying further savings.</li> </ul> <p>Our findings from this work are outlined below.</p> <p><b>Achievement of 2018/19 savings programme</b></p> <p>Included within the approved budget was the requirement to achieve savings of £13.650 million during the year (see below for the results of our work on these savings). This target was made up of individual projects, each with a savings target. These amounts were deducted from base budget allocations. If any service identified that it could not meet any of the savings identified then it was required to make alternative savings from other budgets within the service.</p>	Yes

## 5. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment (continued)	<p>The final outturn for achieved savings was £7.845 million, meaning that the Council achieved approx. 58% of the target, a substantial reduction on the 2017/18 saving of 71% . This reduction was due to the non delivery of a number of schemes and has resulted in the unachieved savings being carried forward into 2019/20. This highlights the ongoing challenge to achieve savings in a financially challenging environment. However the Council managed to make compensating savings elsewhere to achieve a reported underspend of £1.139m.</p> <p>We tested a sample of the 2018/19 savings plans and assessed delivery against the target level of savings. The main issues identified were in relation to the non delivery of savings relating to Care, Wellbeing and Learning schemes and were due to a delay in embedding arrangements. Work is ongoing to strengthen arrangements in this area.</p> <p><b>Arrangements for achievement of 2019/20 savings programme</b></p> <p>Included in the Council's 2019/20 budget, approved by Council on 22 February 2019, is a savings target of £13.113 million. Officers have carried out detailed work in this area and have identified savings plans for a number of individual projects to achieve this target.</p> <p>The Council has introduced new arrangements to strengthen the budget framework and the revenue monitoring process for 2019/20 and beyond. This framework will introduce clear responsibilities so that budget holders will be held accountable for the delivery of their budget areas.</p> <p>The same detailed monitoring arrangements for the savings plans remain in place. Based on our review of the arrangements in place and management's responses to our challenge on the deliverability of a sample of savings plans we have no issues to report however officers do acknowledge that achieving the required savings remains challenging.</p>	

## 5. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment (continued)	<p><b>Review of 2020/21 savings target</b></p> <p>The Councils medium term financial strategy has identified a 2020/21 funding gap of £13.654 million. The process of working with Directorates to identify savings has already began. When a list of savings schemes has been identified, due by Autumn 2019, it will then be challenged by both officers and members before being subject to a public consultation exercise which is due to begin in November 2019 and will last approx. 6 weeks. The outcome of this consultation will be fed back into the process before a detailed savings plan will be produced and challenged as part of the 2020-21 budget process.</p> <p><b>Review of the Medium Term Financial Strategy (MTFS)</b></p> <p>Previously, the Council have presented an update MTFS to Cabinet in July every year however due to the ongoing delays in the Government issuing future funding guidance to Councils, (for example, delays due to Brexit and Green Paper on social care) this will now not be reported until September 2019. However the MTFS approved in July 2019 covers the period 2019/20 to 2023/24 and therefore this covers the period of our work.</p> <p>Despite the above, early work on the MTFS refresh is progressing well. The Council's financial challenge, based on current financial guidance outlines a funding gap of £65 million over the next 5 years with 40 million over the next three years.</p> <p>Due to the scale of the ongoing financial challenge, the Council have reviewed and updated their budget framework and revenue monitoring process to take account of the challenges. The cumulative impact of the financial pressure over a number of years means that the ability to deliver the budget from underspends in other areas is rapidly diminishing.</p>	

## 5. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<p>The Council has written procedures for procuring products and services, which are within its Constitution. Contract Procedure Rules outline the financial regulations currently in place.</p> <p>The Council's risk register includes a strand on partnership working due to the importance of this area. It is involved in a number of significant partnerships, including:</p> <ul style="list-style-type: none"> <li>• South Tyne and Wear Waste Management Partnership.</li> <li>• Gateshead Regeneration Partnership.</li> </ul>	Yes

### Overall assessment ('reality check')

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

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

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

Evidence	Auditor assessment
<b>Outputs by statutory inspectorates or other regulators</b>	<p>We have considered 2017/18 reports from both OFSTED and CQC are part of our work. Inspections carried out by the above bodies did not identify issues that would make us reconsider our conclusion. This included an OFSTED report on Children's Social Care Services which was assessed as Good. The report identified that children and families in Gateshead receive a good-quality service.</p> <p>During the year the Council, via The Gateshead Housing Company, received a Regulatory Notice from the Regulator of Social Housing (the Regulator) in April 2019. This was in relation to the Council breaching the Home standard due to the failure to meet statutory health and safety requirements across a range of areas including fire safety, asbestos and electrical safety. The Regulator had learnt that up until mid-2018, Gateshead MBC did not have a programme in place to carry out risk assessments across its stock. Although fire risk assessments were carried out on Gateshead MBC's high rise properties, they were not carried out in other stock until very recently. The Regulator noted that TGHC had commissioned the review in mid-2018 which identified these issues and that Gateshead MBC has since been working to ensure the required statutory checks, and relevant safety actions, are completed. However, taking into account the breadth and scale of this failure, and the potentially longstanding nature of the issues, the regulator has determined that it is proportionate to find a breach of the Home standard in this case.</p> <p>This issue has not resulted in any direct financial consequence for the Council however the regulator will work with the Council and will consider if any further action should be taken, including whether to exercise any of its powers. We will monitor the progress made in this area during 2019/20 but given the current position we do not feel that this is a Value for Money Conclusion qualification issue</p>

# 5. VALUE FOR MONEY CONCLUSION

Overall assessment ('reality check' continued.)

Evidence	Auditor assessment
<b>Achievement of performance and other targets</b>	We reviewed the 'Value for Money Profiles' (based on data from Public Sector Audit Appointments). We did not identify any indicators which would suggest weaknesses in the Council's arrangements, or any information contrary to our knowledge of the Council.
<b>Performance against budgets and other financial targets</b>	We reviewed the Council's Year End Assessment of Performance and Delivery 2018/19 reported in June 2019. This did not identify any matters suggesting a material weakness in the Council's arrangements or any information contrary to our knowledge of the Council.

## Our overall Value for Money conclusion

Our draft auditor's report included in Appendix B states that we intend to issue an unqualified Value for Money conclusion for the 2018/19 financial year.



# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

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

Date: X July 2019

### Gateshead Council and Group - audit for year ended 31 March 2019

This representation letter is provided in connection with your audit of the financial statements of Gateshead Council and Group for the year ended 31 March 2019 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 2018/19 (the Code).

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 myself 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 Code.

#### My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which I am 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 me for the purpose of the audit; and
- unrestricted access to individuals within Gateshead Council and Group you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Strategic Director, Corporate Resources 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 have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

#### Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider them appropriate for the year.

#### Accounting estimates, including those measured at fair value

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

#### Contingencies

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

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

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

### (CONTINUED)

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

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against Gateshead Council and Group 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 Code.

#### 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.

Gateshead Council and Group has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

#### Fraud and error

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

I have disclosed to you:

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

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

#### Related party transactions

I confirm that all related party relationships, transactions and balances (including sales, purchases, loans, transfers, leasing arrangements and guarantees) have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

I have disclosed to you the identity of Gateshead Council and Group'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.

#### Charges on assets

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

#### Future commitments

We have no 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 Code 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.

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

### (CONTINUED)

#### Group Disclosure

I confirm that I have assessed the other companies in which the Council have an interest and confirm that they do not perform key services on behalf of the Council and are financially immaterial.

#### Going concern

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

#### Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix.

Yours sincerely

Strategic Director, Corporate Resources

Date.....



# APPENDIX B

## DRAFT AUDITOR'S REPORT

### Independent auditor's report to Gateshead Council and Group Report on the financial statements

#### Opinion

We have audited the financial statements of Gateshead Council and Group for the year ended 31 March 2019, which comprise Gateshead Council and Group Movement in Reserves Statement, Gateshead Council and Group Comprehensive Income and Expenditure Statement, Gateshead Council and Group Balance Sheet, Gateshead Council and Group Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of Gateshead Council and Group as at 31<sup>st</sup> March 2019 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

#### Basis for opinion

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

#### Conclusions relating to going concern

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

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

#### Other information

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

# APPENDIX B

## DRAFT AUDITOR'S REPORT (CONTINUED)

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

We have nothing to report in this regard.

### **Responsibilities of the Strategic Director, Corporate Resources for the financial statements**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Strategic Director, Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view. The Strategic Director, Corporate Resources is also responsible for such internal control as the Strategic Director, Corporate Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Strategic Director, Corporate Resources is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless Gateshead Council and Group is informed of the intention for dissolution without transfer of services or function to another entity. The Strategic Director, Corporate Resources is responsible for assessing each year whether or not it is appropriate for Gateshead Council and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

### **Auditor's responsibilities for the audit of the financial statements**

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

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

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

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

# APPENDIX B

## DRAFT AUDITOR'S REPORT (CONTINUED)

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

#### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Gateshead Council and Group has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

#### Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether Gateshead Council and Group had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether Gateshead Council and Group put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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

#### Responsibilities of Gateshead Council and Group

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

#### Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

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

#### Use of the audit report

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

# APPENDIX B

## DRAFT AUDITOR'S REPORT (CONTINUED)

**Delay in certification of completion of the audit**

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

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

x July 2019



# 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.

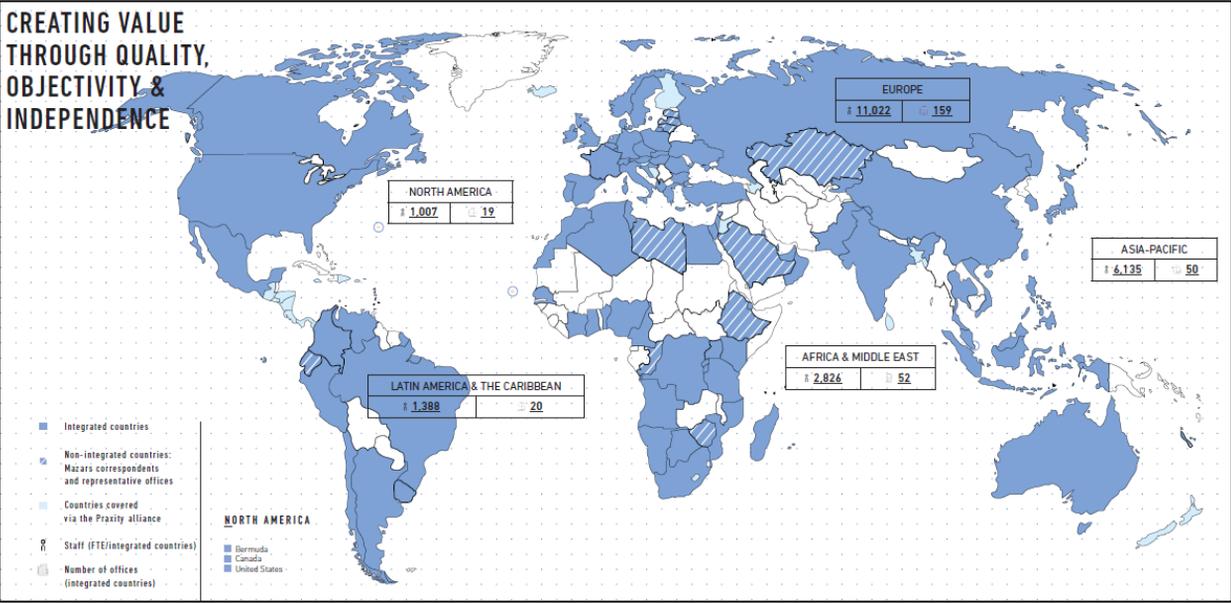
We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

# MAZARS AT A GLANCE

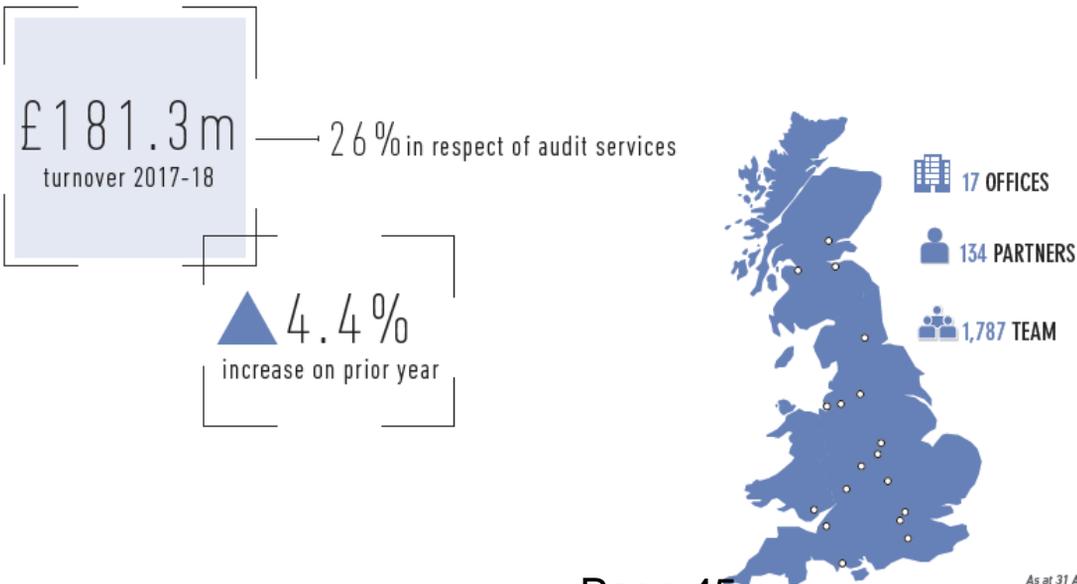
## Mazars LLP

- Fee income €1.6 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand

## Mazars Internationally



## Mazars in the UK



## CONTACT

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Email: [jim.dafter@mazars.co.uk](mailto:jim.dafter@mazars.co.uk)

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

My Ref: DC/SLJ  
Your Ref:

Date: 26 July 2019

Dear Cameron

### **Gateshead Council – Audit for year ended 31 March 2019**

This representation letter is provided in connection with your audit of the statement of accounts for Gateshead Council (“the Council”) and Group for the year ended 31 March 2019 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 2018/19 (the Code).

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 Code.

#### **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 and Group you determined it was necessary to contact in order to obtain audit evidence.

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

## **Accounting Records**

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

## **Accounting Policies**

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider them appropriate for the year. There has been one immaterial departure in respect of the treatment of unspent, non-conditional revenue grant and contributions. This is explained in note 10.

## **Accounting estimates, including those measured at fair value**

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

## **Contingencies**

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

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

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

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council and Group have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code.

## **Laws and Regulations**

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

The Council and Group has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

## **Fraud and Error**

I acknowledge my responsibility as Strategic Director, Corporate Resources 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 and Group 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 and Group'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 (including sales, purchases, loans, transfers, leasing arrangements and guarantees) have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

I have disclosed to you the identity of the Council and Group'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.

## **Charges on assets**

All of the Council's and Group's assets are free from any charges exercisable by third parties except as disclosed with the statement of accounts.

## **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 statement of accounts and for which the Code 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 statement of accounts or inclusion of a note thereto, I will advise you accordingly.

### **Group Disclosure**

I confirm that I have assessed the other companies in which the Council have an interest and confirm that they do not perform key services on behalf of the Council and are financially immaterial.

### **Going Concern**

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

### **Unadjusted misstatements**

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the statement of accounts as a whole. A list of the uncorrected misstatements is attached to this letter as an appendix.

Yours sincerely

Darren Collins  
Strategic Director  
Corporate Resources



**STATEMENT OF  
ACCOUNTS  
2018/19**

**GATESHEAD COUNCIL:  
SINGLE ENTITY AND CONSOLIDATED  
AUDITED**



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# Leader's Foreword

by Councillor Martin Gannon  
Leader of the Council



The Council continues to strive to deliver quality services to the residents of Gateshead whilst being subject to further and deeper cuts from Government. The scale of the financial challenge we're facing is enormous and this continues to impact on the everyday lives of local people. Alongside the funding reductions there is also an increasing need to support more older people and more vulnerable young people and this means demand for Council services has never been higher and this demand continues to increase.

Between 2010 and 2018, the Council has made £157m of financial savings with a further £13.1m taken as part of the 2019/20 budget. These have been achieved through efficiency programmes, income generation and changing the way the Council works. The Government's approach to public finances is likely to lead to further significant funding reductions for this Council over the medium term, which we estimate will result in a funding gap for this Council of £77m between 2019/20 and 2023/24. The likely continuing requirement and scale of budget savings, coming on top of the savings already taken from budgets since 2010, presents an ever-present and increasing challenge for the Council. In 2018/19, the Council took the decision to increase council tax by 4.99%, which included 2% adult social care levy, to protect the delivery of essential services to the residents of Gateshead. We recognise the impact this increase will have on our residents and we'll make sure that those who need it will get extra help. Our council tax support scheme which helps over 12,000 residents on low income is there to help those most likely to be affected by the increase.

Despite these challenges, the Council continues to invest in the assets of the borough with planned capital expenditure forecast to be £368m over the five years to 2023/24, to encourage economic growth and housing growth which will bring about new jobs, new homes and increase the skills of local people. This growth is essential to the well being of the borough and its residents and also to provide the Council with the means other than service cut to maintain a sustainable financial position.

The Council continues to operate in an ever-changing policy landscape, both nationally and locally. The levels of uncertainty and the impact of government decisions remain significant and challenging including Universal Credit, homelessness, increasing demand for services especially within social care, as well as the uncertainty of funding from the imminent Government Spending Review, reform of Local Government funding, delays to the adult social care green paper, all set against the uncertain timing and economic impact of Brexit. Developing the strategic approach of [Making Gateshead a Place Where Everyone Thrives](#) was the Council's response to these challenges. The Council has a financial plan, its Medium Term Financial Strategy, that supports the delivery of this strategic approach to ensure that resources are directed to Council priorities.

The Thrive Strategy is not intended to cover everything that the Council does in detail, but it does provide a framework to demonstrate how the Council will work and make decisions in the future which will be policy and priority led. The response to the Thrive Strategy has been very positive both within the Council but also externally with many of Gateshead's residents and partners signalling their support to work with the Council to make a difference.

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

A handwritten signature in dark ink, appearing to be 'M. Gannon', written over a horizontal line.

Councillor Martin Gannon

# Part 1: Narrative Statement and Statement of Responsibilities

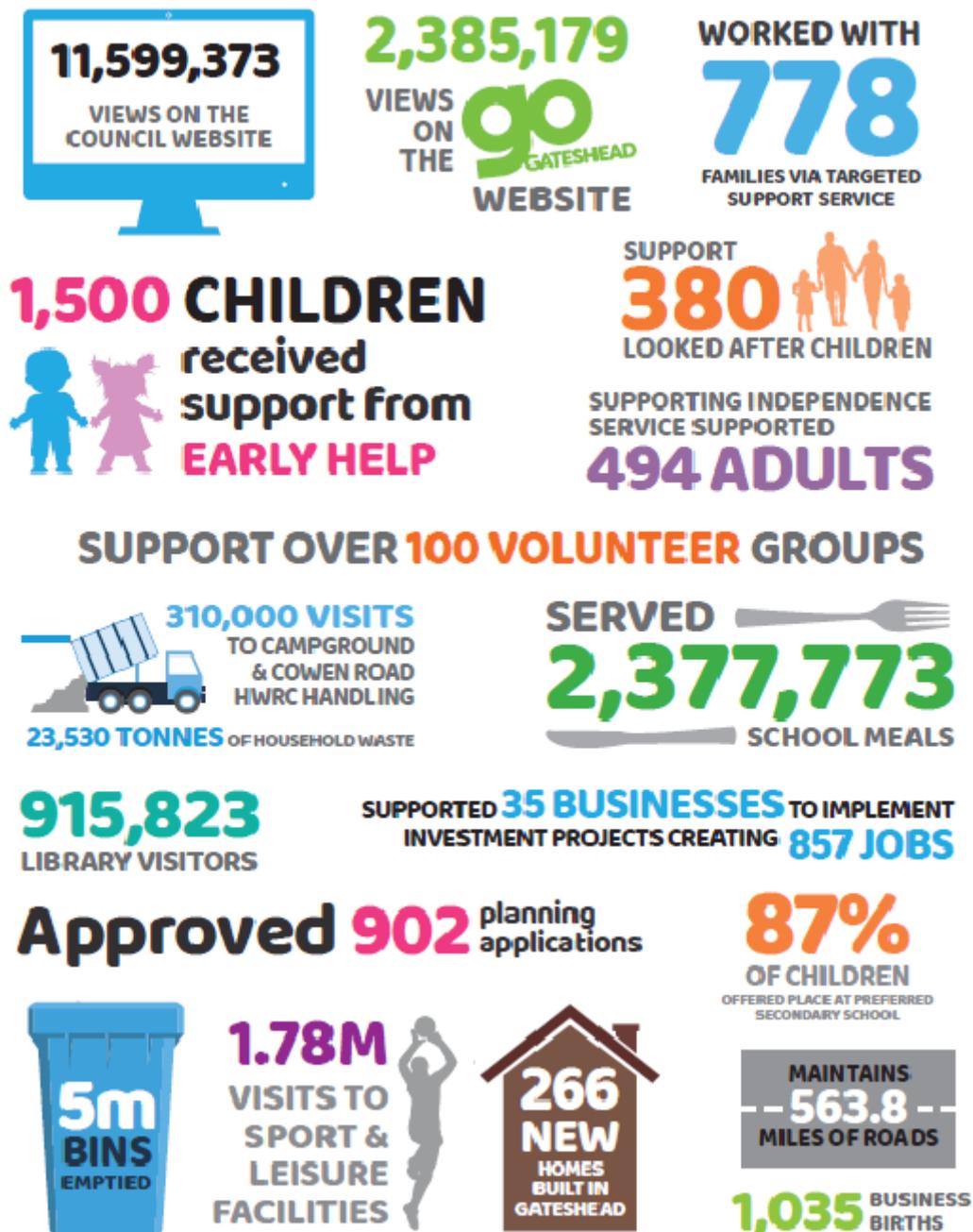


# Narrative Statement

## About Gateshead

- Gateshead has a population of **202,400** and covers **55** square miles, making it the largest in area of the five Tyne and Wear authorities
- The Council employs around **6,200** people (including schools staff)
- There are **90,500** households within Gateshead with **50%** owner occupied, **20%** managed on behalf of the Council by the Gateshead Housing Company, **23%** private rented and **7%** rented from a registered social landlord
- **5,340** businesses generated **£92m** in business rates in 2018/19
- **266** new homes were built in Gateshead in the last 12 months
- The Council is Corporate Parent to **380** Looked After Children and cares for **3,550** adults

### HOW GATESHEAD COUNCIL TOUCHES THE LIVES OF PEOPLE



## Introduction

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

The Statement of Accounts which follows presents the Council's financial performance for 2018/19, its overall financial position at the end of that period and the cost of services it provides. The Statement has been prepared in accordance with the IFRS<sup>1</sup>-based Code of Practice on Local Authority Accounting in the United Kingdom (the Code), developed by the CIPFA/LASAAC Board and approved by FRAB. The Code constitutes proper accounting practice<sup>2</sup>.

The Statement of Accounts presents the Council's financial statements and other financial and governance information. Since 2017/18, the Statement of Accounts also includes group information which incorporates the Council's main subsidiary, the Gateshead Housing Company (TGHC). TGHC is materially significant to the overall financial position of the Council and is therefore consolidated into the Group Financial Statements. The Council have made a judgement that all other entities are not considered to be material and therefore have not been consolidated into the Group Financial Statements. This is the second year that the Council have prepared Group Accounts.

## Governance

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The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework. Further information is available in the Annual Governance Statement (p79-84) which was approved by the Audit and Standards Committee on 24 June 2019. The statement explains how the Council has complied with the Code and also meets the requirements of regulation 6(1) of the Accounts and Audit Regulations 2015.

## Making Gateshead a Place Where Everyone Thrives

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The Council continues to operate in a changing policy landscape, both nationally and locally. The levels of uncertainty and the impact of government decisions remain significant and challenging due to ongoing budget reductions and increasing demand for council services.

Developing the strategic approach of Making Gateshead a Place Where Everyone Thrives was the Council's response to these challenges. The approach was agreed in March 2018 and provides a framework to demonstrate how the Council works and makes decisions which are policy and priority-led.

The response to Making Gateshead a Place Where Everyone Thrives has been very positive both within the Council but also externally with many of Gateshead's residents and partners signalling their support to work with the Council to make a difference.

## Our approach

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The Council's Medium Term Financial Strategy (MTFS) is based on a financial forecast over a rolling five-year timeframe from 2019/20 to 2023/24. The MTFS sets the financial context for the Council's resource allocation process and budget setting.

Over the five-year period there is an estimated funding gap of £77m. Within this financial context the budget process has been built upon council wide working, across four major themes, to deliver a sustainable long-term financial position:

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

---

<sup>1</sup> International Financial Reporting Standards

<sup>2</sup> Under the terms of the [Accounts and Audit Regulations 2015](#) & the [Local Government and Housing Act 1989](#)

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

Whilst it is difficult to predict the future with any certainty, what matters most to the Council is fairness, putting people and families at the heart of what it does, and getting the best outcomes for local people. This may mean targeting resources to tackle inequality, focusing on those in need i.e. just coping and vulnerable people, and changing policy to concentrate on jobs, investment and preventing people requiring support services.

### **MTFS executive summary**

The Council is operating within a context of unprecedented pressure on local authority budgets. Medium-term financial planning is taking place against the background of significant funding cuts for local government alongside Government plans for major local government finance reforms. In addition, the Council, in common with most local authorities, continues to be at risk from unfunded financial pressures, including workforce management, waste management, and demand for social care and welfare reform as well as implementation of the national living wage. This environment will challenge the ability of the Council to respond to the needs of Gateshead residents and the wider community.

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

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

Further details can be found in the MTFS which will be reviewed and agreed by Council in September 2019.

### **Achievements in 2018/19**

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

- ✓ The Great Exhibition of the North took place in over 30 venues, ranging from world-class landmark sites to smaller locations, which brought together thousands of people in a celebration of the North of England.
- ✓ Gateshead Council has become the first local authority in the UK to develop and launch its own funeral service. Regent Funeral Services offers an affordable, bespoke funeral service. All types of funerals are offered, both religious and non-religious and include burials, cremations and direct cremations.
- ✓ Blaydon Lodge respite facility for people with complex disabilities was judged 'Outstanding' by the CQC who, after spending 3 days at Blaydon Lodge, concluded it was "providing outstanding care that was tailored specifically to the individual needs of each person."
- ✓ The Land of Oak & Iron Heritage Centre has welcomed tens of thousands of visitors since it opened in Winlaton Mill. Visitors can find out about the hidden history of the area before setting off on one of the nearby walks.
- ✓ A £20m regeneration scheme designed to radically transform the former site of the Dunston Rocket tower block and deck access flats in Dunston, Tyne and Wear, entered its final phase. The scheme has transformed the area and includes a range of new facilities, including retail outlets, an older persons housing scheme, an approved NHS Health Centre, a pocket park and 45 2&3 bedroom homes for sale.
- ✓ The Emerging Technology Centre, PROTO - an £8 million-pound, state-of-the-art research and development facility (R&D) for organisations to test and create digital solutions was officially opened by the Duke of Cambridge. The centre - part of Digital Catapult NETV - will encourage and support organisations to adopt new technologies, including virtual reality (VR) and augmented reality (AR). In October 2018, PROTO beat off competition from DWP Digital and Nine Software to win public sector project of the year at the 5th Annual Dynamite Awards for the North East IT and Technology sector.
- ✓ Saltwell Park won the Green Flag Award's 'Peoples' Choice' Award for a second year in a row. More than 65,000 votes were cast for 1,800 parks and green spaces in Britain with Saltwell Park voted one of the top 10 most voted for park in Britain.
- ✓ The Council secured almost £500,000 of Heritage Lottery Funding to improve access to the unique local history collection held at Gateshead Central Library. The funding will improve and extend visitor facilities, creating a new space to be known as 'Gateshead Archive'.

- ✓ Gateshead Energy Company (GEC) became the first small generator in the UK to be able to access the National Grid's Balancing Mechanism (BM). The Balancing Mechanism ensures that power generation matches power consumption across the UK, and the National Grid pays a premium to generators able to respond within an hour's notice to increase or decrease generation.
- ✓ Clover Hill Primary School was ranked 7th in a league table of the Top 500 Schools in England. The table, published by The Sunday Times, is based on national SATs results for Key Stage 2 pupils.
- ✓ Gateshead Council's school catering service was singled out for the third year running by APSE as the UK's top performing school meals provider. Gateshead was ranked first for quality, cost and productivity after being compared with 50 other UK school meals providers.
- ✓ The Environmental Enforcement Team was launched in response to public concerns about the litter, cigarette butts and dog excrement which are dropped onto Gateshead's streets every day.
- ✓ Around 600 homes in Gateshead are benefiting from cheaper heating bills thanks to the Gateshead HEIGHTs project (High-rise Energy Infrastructure for Gateshead Housing Tenants). This scheme installed low-carbon heat and power generation systems in 7 high rise blocks in Gateshead to reduce carbon emissions and energy costs for residents.
- ✓ Young people in Gateshead with Special Educational Needs and DeSEND were helped to live more independently through a project called Bus Buddies pioneered by Children North East. It has enabled 27 young people to use public transport to get to school, college, work or access leisure activities. Bus operator Go North East has also got on board by awarding free bus passes to some of those taking part and their support workers.
- ✓ The Angel of the North, Britain's most-viewed piece of public modern art, reached its next significant milestone by celebrating its 21st birthday.
- ✓ Gateshead had 3 athletes representing Great Britain in the Special Olympics World Championships in the United Arab Emirates during March 2019.
- ✓ Appointments for birth and death registrations can now be booked online through the Council website. Residents are no longer required to call the customer services team to make their appointment, so they can be made at a time that is convenient, including out of hours appointments.

Further information on the Council's performance and key indicators can be found on the performance section of the Council's website<sup>3</sup>. The year-end assessment of performance and delivery will be reported to Cabinet in summer 2019.

## Financial Performance

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The Council classifies its expenditure and income as:

- Revenue:** relates to the purchase of goods and services that are used within one year, financed from council tax, grants, business rates and other income such as fees and charges
- or
- Capital:** relates to assets which have a useful life in excess of one year, financed by capital receipts, borrowing, grants or other contributions

The following sections discuss the Council's revenue and capital income and expenditure during 2018/19; note that the information below presents the Council's position only, rather than that of the group, as the wider group position is of lesser relevance to local taxpayers and other interested parties.

## Financials at a glance

---

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

- Council funding continues to diminish resulting in enormous financial pressures at a time when demand for important services increases. Over the last eight years, the government has cut the funding it gives to local authorities by nearly half, while, at the same time policy changes mean that demands and expectations for critical council services such as housing and social care have grown significantly.
- Funding estimated to be received from the Government and from council tax and business rate payers over the next five years is not sufficient to cover current level of spend plus new budget pressures. It is estimated that the Council will need to close a financial gap of £77m between 2019/20 and 2023/24;
- Gateshead is ranked the 73rd most deprived out of 326 local authorities in England and within Gateshead there are 15 areas which fall within the 10% most deprived areas in England. The Council recognises the importance of increasing Gateshead's prosperity so that ultimately people's standards of living will improve;

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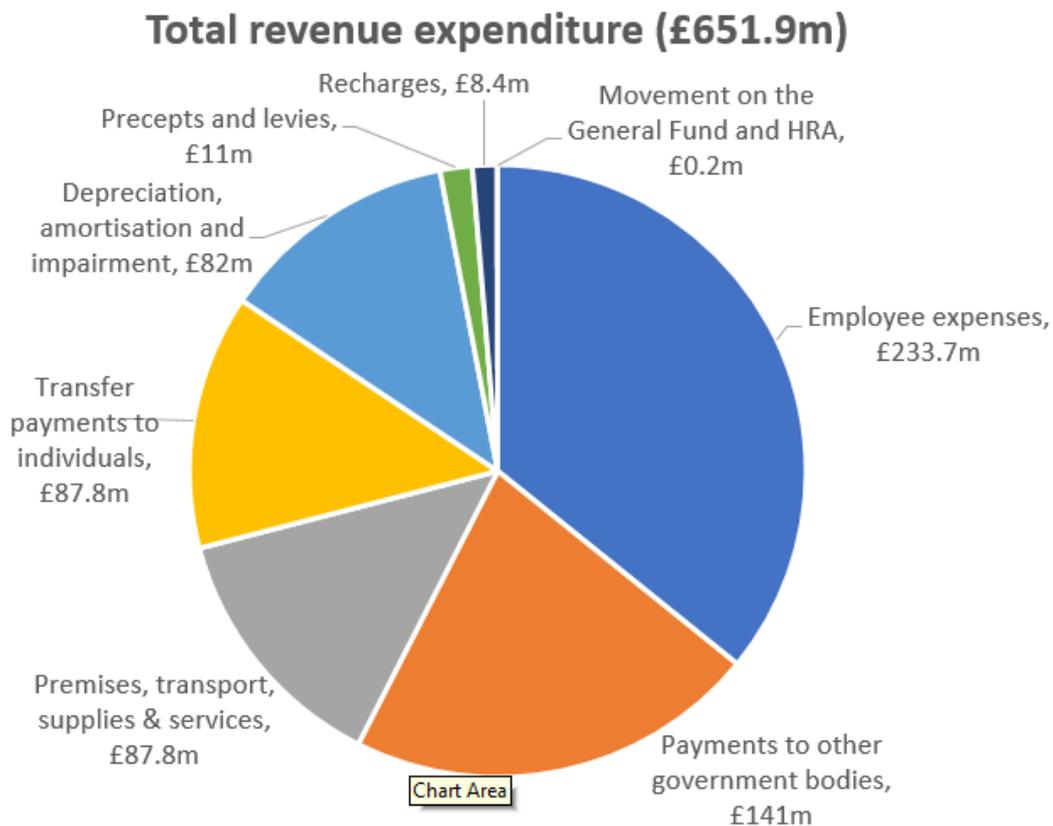
<sup>3</sup> [www.gateshead.gov.uk/Council%20and%20Democracy/Council/Performance/Performance.aspx](http://www.gateshead.gov.uk/Council%20and%20Democracy/Council/Performance/Performance.aspx)

- Population projections from the Office for National Statistics state that Gateshead's population is projected to increase to approximately 211,000 and see an increase of 31% in people aged 65 or older by 2041. This will put more pressure on the Council's social care services and as a result the cost of social care is likely to rise substantially unless there are a change to service models;
- The UK's decision to leave the EU has created uncertainty and the consequences of this are yet to be fully understood. The EU has granted an extension until 31 October to allow the UK to agree a deal. Whilst it is not known whether the impact of either a deal or no deal exit will be positive or negative, it is likely to affect interest rates and inflation, labour costs, property and rental values. This may have a significant impact on the national and local economy; and
- The Medium Term Financial Strategy is refreshed annually; however, the environment of uncertainty will continue to make medium-to long-term planning extremely challenging.

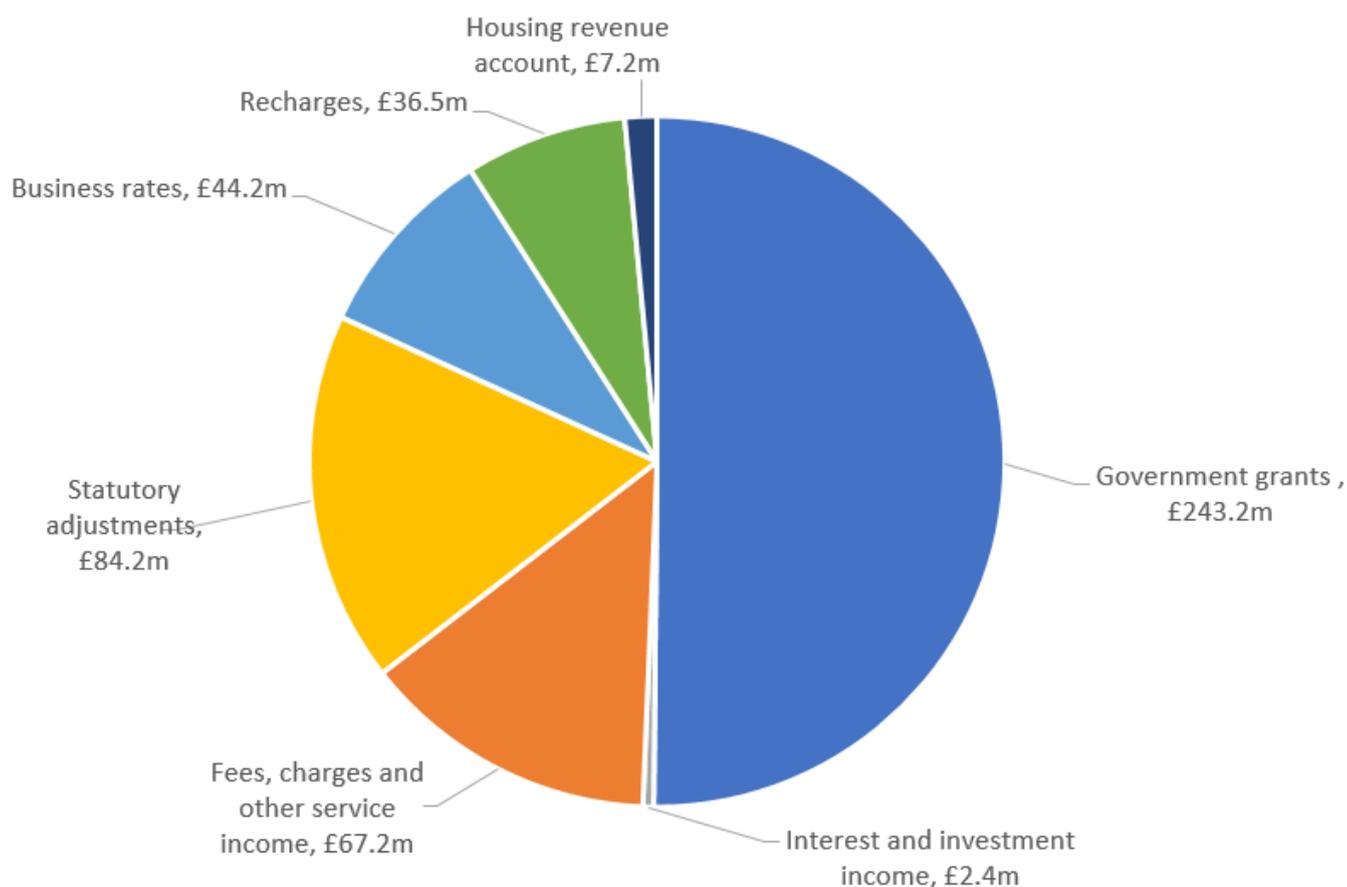
### Revenue Income and Expenditure Summary

This section offers a summary of the income and expenditure presented within the Movement in Reserves Statement (page 19), the Comprehensive Income and Expenditure Statement (page 20) and the Housing Revenue Account (HRA) statement (page 72). The information reconciles to the net movement in the General Fund, which includes the General Reserve and Local Management of Schools (LMS) reserve, and HRA reserves.

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



## Total revenue income (£651.9m)



### Position against Revenue Budget

The Council's Revenue Budget is prepared on a different basis to the Statement of Accounts (which must comply with international accounting rules)<sup>4</sup>. The Revenue Outturn position compared to Budget is reported to Cabinet and Council.

The key outcomes for the year are as follows:

- The Council approved a revenue budget of £203.466m for 2018/19. The actual net expenditure position, following a movement in earmarked reserves of £3.960m, was £205.804m. The council received additional financing of £3.477m which results in an overall surplus of £1.139m.
- The Council has reviewed revenue schemes to identify expenditure which meets the qualifying criteria to be funded through capital receipts. In total £2.034m of qualifying revenue expenditure has been identified to be funded through the application of capital receipt flexibility. This approach was agreed by Cabinet 22 January 2019.
- The General Reserve increased by £1.139m to £14.807m. There was also an increase of £1.044m in the LMS Reserve (schools) to £6.249m. Earmarked reserves have decreased by £4.301m to £31.848m

<sup>4</sup> Note 8 *Expenditure and Funding Analysis* provides a reconciliation between the revenue outturn position reported internally

## Part 1: Narrative Statement

and the cost of services in the Comprehensive Income and Expenditure Statement.

Further details can be found in the Council's Revenue Outturn which was reported to Cabinet on 25 June 2019. The following shows the Council's spend against Budget for 2018/19<sup>5</sup>:

	Revised Budget	Outturn Before Reserves	Use of Reserves	Outturn	Budget Variance
	£000's	£'000s	£000's	£000's	£000's
Care, Wellbeing & Learning	116,098	126,140	(943)	125,197	9,099
Communities & Environment	22,687	23,086	(1,723)	21,363	(1,324)
Office of the Chief Executive	1,776	1,707	(92)	1,615	(161)
Corporate Services & Governance	4,369	4,289	(17)	4,272	(97)
Corporate Resources	16,600	17,461	(1,210)	16,251	(349)
<b>Net service expenditure</b>	<b>161,530</b>	<b>172,683</b>	<b>(3,985)</b>	<b>168,698</b>	<b>7,168</b>
Other Services & Contingencies	4,158	1,886	55	1,941	(2,217)
Capital Financing Costs	31,518	29,726	0	29,726	(1,792)
Traded & Investment Income	(3,186)	(3,977)	(30)	(4,007)	(821)
Expenditure passed outside General Fund	(1,780)	(1,780)	0	(1,780)	0
Levies	11,226	11,226	0	11,226	0
<b>Net spend before financing</b>	<b>203,466</b>	<b>37,081</b>	<b>(3,960)</b>	<b>205,804</b>	<b>2,338</b>
Settlement Funding Assessment (SFA)	(75,578)	(76,827)	0	(76,827)	(1,249)
Other Grants	(20,208)	(21,739)	0	(21,739)	(1,531)
Public Health	(16,516)	(16,516)	0	(16,516)	0
Council Tax	(86,798)	(86,798)	0	(86,798)	0
Collection Fund (Council Tax)	(3,029)	(3,029)	0	(3,029)	0
Earmarked Reserves	(1,337)	0	0	0	1,337
Capital Receipts	0	(2,034)	0	(2,034)	(2,034)
<b>Financing</b>	<b>(203,466)</b>	<b>(206,943)</b>	<b>0</b>	<b>(206,943)</b>	<b>(3,477)</b>
<b>Net (under) / over spend</b>	<b>0</b>	<b>2,821</b>	<b>(3,960)</b>	<b>(1,139)</b>	<b>(1,139)</b>
<b>General Reserve – opening balance</b>				<b>13,668</b>	
2018/19 underspend				1,139	
<b>General Reserve – closing balance</b>				<b>14,807</b>	

### Capital income and expenditure summary

In 2018/19, the Council spent £89.6m on capital schemes (2017/18: £74.7m), with capital investment focused on the delivery of Council priorities. A number of schemes were supported during the year, with particular emphasis on housing, economic growth, energy efficiency and sustainability projects.

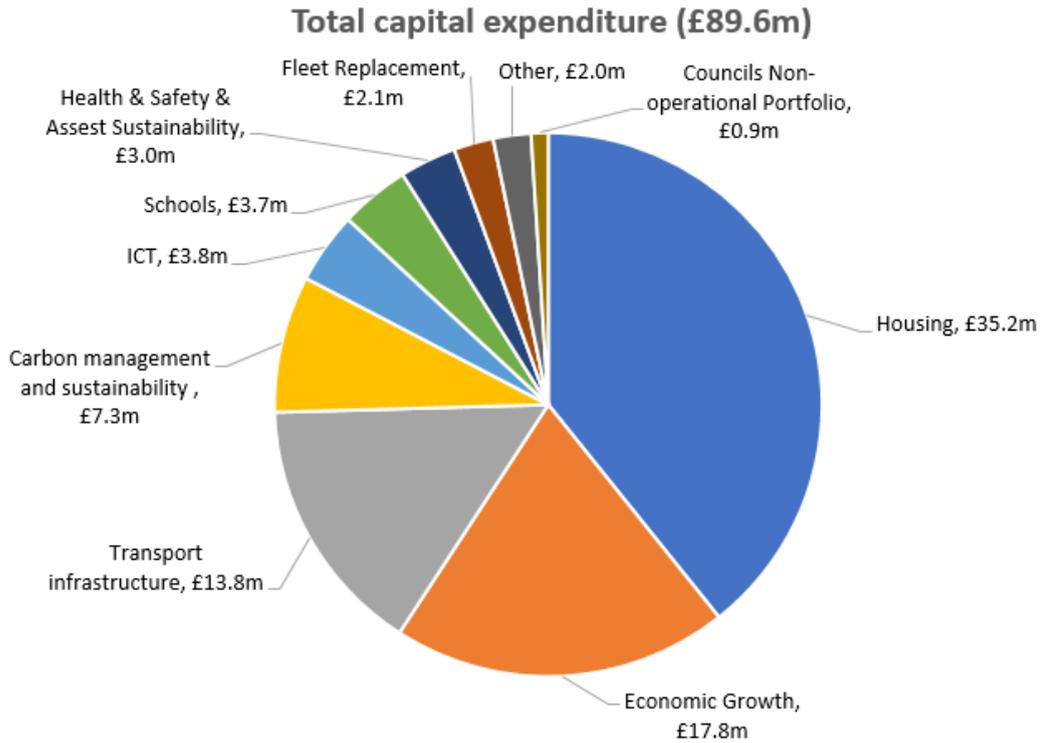
Actual capital expenditure for the year on the Council's non-current assets totalled £71.5m (2017/18: £68.1m). This expenditure was invested in the purchase and improvement of the Council's assets such as housing, schools and transport infrastructure.

In addition, the Council spent a further £18.1m (2017/18: £6.6m) on schemes where no asset of the Council was created. This includes:

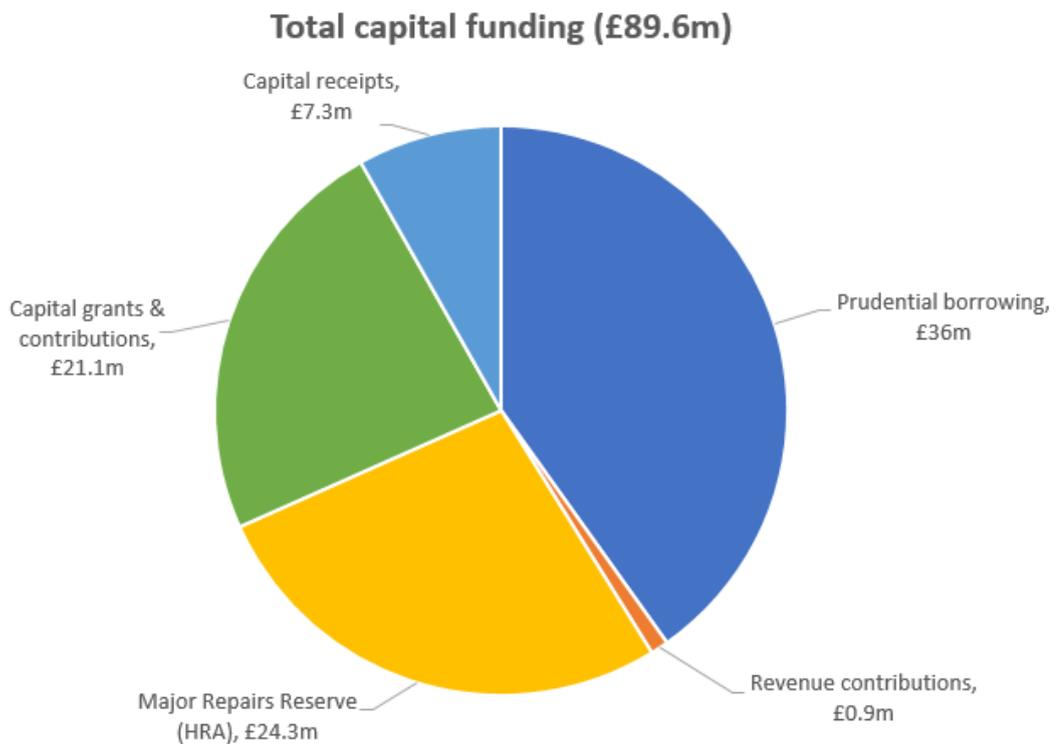
- the award of capital loans to facilitate the development of affordable housing within Gateshead;
- the award of a grant to support site infrastructure to enable future development at the Follingsby Max site;
- the award of disabled facilities grants to individuals; and
- the application of the Capital Receipts Direction to finance qualifying revenue expenditure.

<sup>5</sup> Note that this excludes schools and HRA

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

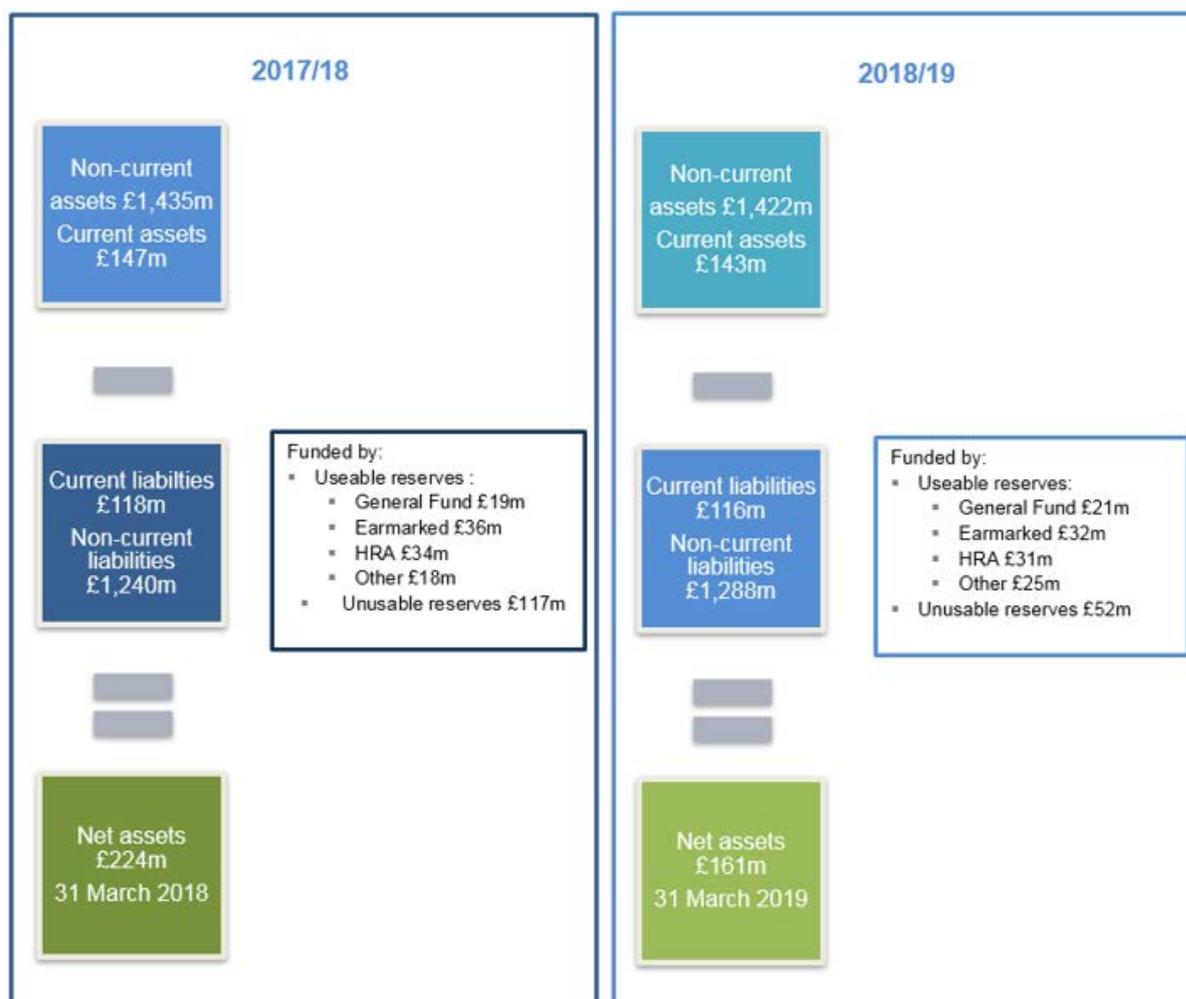


The use of available external capital resources and capital receipts was maximised, ensuring that the Council did not lose any of the external funding that had been awarded. The following chart indicates how the Council funded its capital investment:



## Balance sheet summary

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



## Other Key Items in 2018/19

### Material assets and liabilities: changes in 2018/19

As at 31 March 2019, the Council held £1,421.7m of non-current assets, £143.2m of current assets, £116.2m of current liabilities and £1,287.9m of non-current liabilities.

**Non-current assets** have reduced by £13.3m, primarily due to decreases in the value of the Council's asset portfolio.

**Current assets** have decreased by £8.6m, which includes the following significant items:

- A decrease of £7.5m in short-term investments due to investment management activities – these result in movements between short-term investments, long-term investments and cash;
- Changes in the values of short-term debtors, assets held for sale and inventory levels resulted in an increase of £6.1m; and
- A £7.2m decrease in cash and cash equivalents.

The Council's **current liabilities** have reduced by £6.9m, which includes the following:

- Cash and cash equivalents (overdrafts) have increased by £3.2m;
- Short-term borrowing has decreased by £13.3m, reflecting the maturity profile of borrowing and use of prudential borrowing for the capital programme; and
- An increase of £5.4m in short-term creditors due to fluctuations in the amounts owed by public bodies such as the NHS and changes in grant receipts in advance.

**Non-current liabilities** have increased by £48.3m, mainly reflecting an increase in pension liabilities of £16.9m, an increase in long term borrowing of £33.9m, offset by a decrease of £2.9m in long-term creditors.

### Workforce management and exit packages

The 2018/19 Statement of Accounts recognises a cost of £2.0m in relation to actual redundancies and other terminations in 2018/19, including expected redundancies in 2019/20 and 2020/21. This includes 15 compulsory redundancies (13 in 2017/18), 46 voluntary redundancies (86 in 2017/18) and 2 other terminations (4 in 2017/18). This cost includes redundancy payments to employees and strain on the fund costs payable to the relevant pension fund.

The total cost of redundancy in 2018/19 totalled £3.3m. £2.7m of this expenditure was funded from a balance sheet provision and recognised in 2017/18, with the remaining expenditure of £0.6m being funded from revenue. In addition, as part of the 2018/19 revenue outturn funds were set aside to create a provision of £1.4m for redundancies in 2019/20 and 2020/21.

### Trade Union (Facility Time Publication Requirements)

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

### Pension liability

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

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

The current shortfall in the Council's share of the relevant pension funds has been assessed by independent actuaries as £585.7m (from £568.9m in 2017/18). The deficit on the Fund increased by £16.9m. The Council is making the necessary pension deficiency payments over a 20-year period to address the estimated shortfall. Note 25 to the core financial statements provides further details of the Council's pension disclosures.

### Council's borrowing position

The Budget and Council Tax Level Report, approved by Council on 22 February 2018, details the 2018/19 borrowing limits for the Council.

The specific borrowing limits set relate to two of the prudential indicators that are required under the Prudential Code<sup>6</sup>. The Council is required to set borrowing limits for the following three financial years. The limits for 2018/19 were as follows:

- Authorised limit for external debt of £875m
- Operational boundary for external debt of £850m

As part of the Council's Treasury Management operation, these indicators are monitored on a daily basis, and neither was exceeded during 2018/19. The highest level of external debt incurred by the Council during the year was £669.9m.

### Changes to the presentation of the Statement of Accounts

The CIPFA Code of Practice on Local Authority Accounting 2018/19 introduced the implementation of IFRS 9 *Financial Instruments*. This has resulted in a significant change to the way investments are categorised and an enhanced disclosure requirement to Note 26 is included in the Council's accounts. The new standard sets out that investments in equity should be recognised as fair value through the profit and loss. This would mean that any changes in valuation would impact the Council's revenue budget. The Code does however allow for Council's to elect at the outset to treat equity investments as fair value through other comprehensive income. The Council have therefore elected to designate its shareholding in Newcastle Airport as fair value through other comprehensive income, meaning that any changes in the valuation will not impact the revenue budget. The election to designate to fair value through other comprehensive income under IFRS 9 is irrevocable.

## Significant Issues for 2019/20 and Beyond

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### Government Funding

The Council accepted the government's offer of a multi-year settlement and 2019/20 is the final year under this arrangement. Due to proposed funding reforms for local government and the imminent Spending Review, there is no certainty of funding levels beyond 2019/20 and an absence of guidance in this area.

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<sup>6</sup> See [www.cipfa.org/Policy-and-Guidance/Publications/T/The-Prudential-Code-for-Capital-Finance-in-Local-Authorities-2011-Edition-Book](http://www.cipfa.org/Policy-and-Guidance/Publications/T/The-Prudential-Code-for-Capital-Finance-in-Local-Authorities-2011-Edition-Book)

The Council's MTFS to 2023/24 outlines an estimated funding gap of £77m for the next five years. The hugely challenging financial context is expected to continue over the medium term and the high levels of uncertainty around future funding reforms and the economy will add to the potential for financial volatility and risk. The MTFS will be fully reviewed in autumn 2019.

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

### Revenue budget 2019/20

Council agreed the revenue budget for 2019/20 at its meeting on 21 February 2019. This was set at £206.999m (excluding schools) and included £13.113m in savings.

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

The 2019/20 budget includes a contingency of £7.3m to manage risks in relation to the ongoing contribution to the costs of managing the workforce, demand pressures, and any unforeseen in year cost pressures, this is regarded as good financial management.

### Capital programme 2019/20

On 21 February 2019, the Council approved a capital programme of £95m for 2019/20, which included £24m of planned HRA capital investment. The level of investment over the next five years (2019/20 to 2023/24) is expected to amount to £368m, of which £262m relates to General Fund schemes, representing a significant level of strategic investment to deliver the Council's strategic approach to making Gateshead thrive.

Capital investment has a significant impact on the local economy within Gateshead. The investment in schemes to encourage economic and housing growth in particular are estimated to attract £300m of private investment to Gateshead, facilitate 800 new homes and support the development of over 104,000m<sup>2</sup> of commercial floor space over the next five years, with the potential to generate additional Business Rates and Council Tax of around £3m per annum when the schemes are fully developed.

### Economic Growth

On 2 June 2015, Cabinet approved the appointment of a development partner for Gateshead Quays, which will assist with regeneration plans and business rates growth. The Council and its Development Partners ASK and Patrizia UK have been progressing the necessary pre-construction work for a major development at Gateshead Quays, which will include an Arena and International Conference and Exhibition Centre along with hotels and complementary leisure units. Discussions are ongoing with potential tenants, investors and building contractors to ensure a commercially viable, thriving and sustainable scheme can be delivered. Construction is expected to commence in the 2020/21 financial year and is anticipated to open in 2023, helping to generate economic growth and acting as a catalyst for further development.

### Welfare reform

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

### EU referendum

On 23 June 2016, the UK voted to end its membership of the EU. This has resulted in the UK entering a period of significant uncertainty that may impact on Council service delivery, the local economy, and financial planning in the future. This will be kept under annual review as part of medium-term financial planning. A report to Cabinet on 19 March 2019 outlined the latest position on the Council's preparedness<sup>7</sup>.

## Strategic Risks for 2019/20

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

Updates to the Strategic Risk Register are presented quarterly to Audit and Standards Committee<sup>8</sup>. The register contains details of existing and planned controls to mitigate the risks identified.

<sup>7</sup> See <http://democracy.gateshead.gov.uk/documents/s19233/EU%20Exit%20preparations%20update.pdf>

<sup>8</sup> See [http://democracy.gateshead.gov.uk/documents/s19727/Strategic%20Risk%20Register\\_.pdf](http://democracy.gateshead.gov.uk/documents/s19727/Strategic%20Risk%20Register_.pdf)

The Council's key strategic risks are:

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

## The Statement of Accounts

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The Statement of Accounts is set out on pages 18 to 71. The Statement covers the financial year from 1 April 2018 to 31 March 2019, with comparative figures included for previous periods where appropriate. The accounts consist of the following statements that are required to be prepared under the Code:

**Statement of Responsibilities (p17)** explains both the Council's and the Strategic Director, Corporate Resources' responsibilities in respect of the Statement of Accounts.

### Core Financial Statements (pages 18 to 71):

**Movement in Reserves Statement (p19)** shows the movement in the year across the different reserves held by the Council and the wider group, which includes the Gateshead Housing Company (TGHC). This is analysed into 'usable' reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other, 'unusable' reserves.

**Comprehensive Income and Expenditure Statement (p20)** shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise council tax to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

The Comprehensive Income and Expenditure Statement is presented using the Council's internal management structure as reported to Cabinet. The group position is presented separately on page 21.

**Balance Sheet (p22)** shows both the Council's and the wider group's financial position and net assets at the start and end of the financial year. It summarises the long-term and current assets that are used in carrying out the Council's activities, together with its liabilities.

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

**Notes to the Core Financial Statements (p25)** provide additional information for significant items to support the core statements above. Where group transactions are significant, these are separately disclosed.

### Supplementary Financial Statements (pages 72 to 78):

#### Housing Revenue Account (HRA)

- **HRA Income and Expenditure Statement (p73)** covers the provision and maintenance of the Council's housing stock. There is a statutory requirement<sup>9</sup> to produce this account, which separates housing from all other Council services.
- **Statement of Movement on the HRA Balance (p73)** 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 (p74)** provide additional information to support the HRA statements.

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<sup>9</sup> See <http://www.legislation.gov.uk/ukpga/1989/42/part/VI>

### Collection Fund

- **The Collection Fund Statement (p77)** - the Council is required<sup>10</sup> to maintain a Collection Fund, which shows the transactions of the Council in relation to business rates and council tax and illustrates the way in which these have been distributed to preceptors and the General Fund.
- **Notes to the Collection Fund Statement (p78)** provide additional information to support the Collection Fund Statement.

## Documents Supporting the Statement of Accounts

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**Annual Governance Statement (p80)**, required by regulations<sup>11</sup> to accompany the Statement of Accounts, outlines the Council's approach to corporate governance and internal control.

**Independent Auditor's Report (p86)** details the basis of the external auditor's opinion on the Statement of Accounts.

**Glossary of Terms (p87)** includes a description of the key terms used in the Statement of Accounts, along with explanations of any technical terms.

**Contacts (p94)** includes a list of key contacts regarding the Statement of Accounts.

**Darren Collins**  
**Strategic Director, Corporate Resources**

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<sup>10</sup> In accordance with section 89 of the [Local Government Finance Act 1988](#) (as amended in 1992)

<sup>11</sup> Paragraph 4(4)(a) of the [Accounts and Audit Regulations 2015](#)

# Statement of Responsibilities

## The Council and Group's Responsibilities

The Council and Group are required to:

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

## The Strategic Director, Corporate Resources' Responsibilities

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

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

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

The Strategic Director, Corporate Resources has also:

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

## Chief Finance Officer's Certificate

I hereby certify that the Statement of Accounts for the year ended 31 March 2019, required by the Accounts and Audit Regulations 2015 are set out in the following pages.

I further certify that the Statement of Accounts give a true and fair view of the financial position of the Council and Group at 31 March 2019 and of its income and expenditure for the year ended 31 March 2019.

Signed:

Date:

**Darren Collins**  
**Strategic Director, Corporate Resources**

# Part 2:

## Core Financial Statements

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



## Movement in Reserves Statement

Note	General Fund Balance	Earmarked GF Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Gateshead useable reserve	TGHC pension reserve (Restated)*	TGHC P&L reserve	Total Group useable reserves	Gateshead unusable reserves	Total Group Reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Balance as at 31 March 2017</b>	<b>22,270</b>	<b>33,774</b>	<b>27,359</b>	<b>0</b>	<b>14,423</b>	<b>2,845</b>	<b>100,671</b>	<b>(15,940)</b>	<b>1,351</b>	<b>86,082</b>	<b>177,156</b>	<b>263,238</b>
<b>Movement in reserves during the year</b>												
Total comprehensive income and (expenditure)	(37,629)	0	5,282	0	0	0	(32,347)	0	0	(32,347)	(21,240)	(53,587)
Adjustments between group accounts and Gateshead Council single entity accounts	0	0	0	0	0	0	0	(22,150)	(660)	(22,810)	0	(22,810)
Adjustments between accounting basis and funding basis under regulations	6a 34,232	2,376	1,313	0	(2,822)	3,315	38,414	0	0	38,414	(38,414)	0
<b>Increase or (decrease) in year</b>	<b>(3,397)</b>	<b>2,376</b>	<b>6,595</b>	<b>0</b>	<b>(2,822)</b>	<b>3,315</b>	<b>6,067</b>	<b>(22,150)</b>	<b>(660)</b>	<b>(16,743)</b>	<b>(59,654)</b>	<b>(76,397)</b>
<b>Balance as at 31 March 2018</b>	<b>6b 18,873</b>	<b>36,150</b>	<b>33,954</b>	<b>0</b>	<b>11,601</b>	<b>6,160</b>	<b>106,738</b>	<b>(38,090)</b>	<b>691</b>	<b>69,339</b>	<b>117,502</b>	<b>186,841</b>
<b>Movement in reserves during the year</b>												
Total comprehensive income and (expenditure)	(78,614)	0	(5,466)	0	0	0	(84,080)	0	0	(84,080)	20,692	(63,388)
Adjustments between group accounts and Gateshead Council single entity accounts	0	0	0	0	0	0	0	(8,160)	112	(8,048)	0	(8,048)
Adjustments between accounting basis and funding basis under regulations	6a 80,796	(4,302)	3,065	0	(1,787)	8,764	86,537	0	0	86,537	(86,537)	0
<b>Increase or (decrease) in year</b>	<b>2,182</b>	<b>(4,302)</b>	<b>(2,401)</b>	<b>0</b>	<b>(1,787)</b>	<b>8,764</b>	<b>2,457</b>	<b>(8,160)</b>	<b>112</b>	<b>(5,591)</b>	<b>(65,846)</b>	<b>(71,437)</b>
<b>Balance as at 31 March 2019</b>	<b>6b 21,056</b>	<b>31,848</b>	<b>31,553</b>	<b>0</b>	<b>9,813</b>	<b>14,924</b>	<b>109,194</b>	<b>(46,250)</b>	<b>803</b>	<b>63,747</b>	<b>51,657</b>	<b>115,404</b>

\* Restated to categorise The Gateshead Housing Company Pension Reserve as a useable reserve.

# Comprehensive Income and Expenditure Statement

## Council position:

2017/18			2018/19			Notes
Gross Exp. £000s	Gross Income £000s	Net Exp. £000s	Gross Exp. £000s	Gross Income £000s	Net Exp. £000s	
203,471	(107,034)	96,437	Care, Wellbeing & Learning	216,719	(114,172)	102,548
76,607	(37,700)	38,907	Communities & Environment	103,986	(42,022)	61,964
124,595	(92,465)	32,130	Corporate Resources (including housing benefits)	122,746	(82,086)	40,659
19,016	(6,071)	12,945	Corporate Services & Governance and Office of the Chief Executive	24,103	(6,741)	17,362
6,789	(6,025)	764	Other Corporate Income and Expenditure	5,414	(4,825)	588
87,251	(90,589)	(3,338)	Schools	88,163	(87,381)	782
60,665	(80,249)	(19,584)	Housing Revenue Account	71,637	(78,860)	(7,223)
(9,870)	0	(9,870)	Exceptional item - IAS19 settlement adjustment <sup>\$</sup>	0	0	0
<b>568,524</b>	<b>(420,133)</b>	<b>148,391</b>	<b>Cost of services</b>	<b>632,768</b>	<b>(416,087)</b>	<b>216,681</b>
		27,296	Other operating expenditure			14,269
		42,217	Financing and investment income & expenditure			59,283
		(195,428)	Taxation and non-specific grant income			(206,043)
		<b>22,476</b>	<b>(Surplus) or deficit on provision of services</b>			<b>84,190</b>
		8,130	(Surplus) or deficit on revaluation of non-current assets			2,188
		22,980	Re-measurements of the net defined benefit liability			(22,880)
		0	(Surplus) or deficit on financial assets measured at fair value through other comprehensive income			(109)
		<b>31,110</b>	<b>Other comprehensive (income) and expenditure</b>			<b>(20,802)</b>
		<b>53,586</b>	<b>Total comprehensive (income) and expenditure</b>			<b>63,388</b>

<sup>\$</sup> Gain from settlements due to TUPE of staff to The Gateshead Housing Company (see also Note 25)

Please note all amounts included above relate to continuing operations

Group position:

2017/18			2018/19			Notes
Gross Exp. £000s	Gross Income £000s	Net Exp. £000s	Gross Exp. £000s	Gross Income £000s	Net Exp. £000s	
203,386	(107,010)	96,376	214,776	(114,132)	100,645	
74,644	(37,254)	37,390	103,072	(41,293)	61,779	
122,219	(90,107)	32,112	119,931	(79,367)	40,563	
17,975	(5,030)	12,945	23,515	(6,153)	17,362	
5,451	(4,789)	662	3,724	(3,337)	386	
87,251	(90,589)	(3,338)	88,163	(87,381)	782	
86,500	(80,865)	5,635	85,923	(79,085)	6,838	
(9,870)	0	(9,870)	0	0	0	
<b>587,556</b>	<b>(415,644)</b>	<b>171,912</b>	<b>640,122</b>	<b>(411,766)</b>	<b>228,356</b>	8
		26,371			13,362	7b
		43,081			60,313	7b
		(195,428)			(206,043)	7b
		<b>45,936</b>			<b>95,988</b>	
		8,130			2,188	17
		22,330			(26,630)	25
		0			(109)	
		0			0	
		<b>30,460</b>			<b>(24,552)</b>	
		<b>76,396</b>			<b>71,436</b>	

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Please note all amounts included above relate to continuing operations

# Balance Sheet

01/04/2017		31/03/2018			31/03/19		Notes
£000s		£000s			£000s		
Group (Restated*)	Gateshead	Group (Restated*)	Gateshead (Restated*)		Group	Gateshead	
1,392,047	1,391,469	1,366,004	1,365,459	Property, plant & equipment	1,347,253	1,346,692	17
22,943	22,943	26,703	26,703	Heritage assets	27,056	27,056	18
1,321	1,321	1,405	1,405	Investment property	1,405	1,405	
2,265	1,657	2,105	1,620	Intangible assets	2,203	1,926	
12,367	12,367	17,367	17,367	Non-current investments	17,477	17,477	26
19,903	19,903	22,466	22,466	Non-current debtors	27,121	27,121	22
<b>1,450,846</b>	<b>1,449,660</b>	<b>1,436,050</b>	<b>1,435,020</b>	<b>Non-current assets</b>	<b>1,422,515</b>	<b>1,421,677</b>	
52,191	52,191	71,194	71,194	Current investments	63,701	63,701	26
1,411	1,411	3,640	3,640	Assets held for sale	955	955	
1,055	1,055	1,331	306	Inventories	1,581	495	
54,799	58,580	59,554	60,545	Current debtors	68,295	69,125	22
16,916	12,338	16,162	16,162	Cash and cash equivalents	15,628	8,964	21
<b>126,372</b>	<b>125,575</b>	<b>151,881</b>	<b>151,847</b>	<b>Current assets</b>	<b>150,160</b>	<b>143,240</b>	
(5,670)	(5,670)	(6,082)	(10,967)	Cash and cash equivalents	(14,163)	(14,163)	21
(78,005)	(78,005)	(55,360)	(55,360)	Current borrowing	(42,058)	(42,058)	26
(4,261)	(4,261)	(5,986)	(5,986)	Current provisions	(3,877)	(3,877)	24
(56,479)	(55,916)	(55,838)	(50,721)	Current creditors	(62,914)	(56,078)	23
<b>(144,415)</b>	<b>(143,852)</b>	<b>(123,266)</b>	<b>(123,034)</b>	<b>Current liabilities</b>	<b>(123,012)</b>	<b>(116,176)</b>	
(66,123)	(66,123)	(63,568)	(63,568)	Non-current creditors	(60,676)	(60,676)	23
(6,391)	(6,322)	(6,449)	(6,307)	Non-current provisions	(6,825)	(6,706)	24
(538,341)	(538,341)	(600,867)	(600,867)	Non-current borrowing	(634,738)	(634,738)	26
(558,710)	(542,770)	(606,940)	(568,850)	Pensions liability	(632,020)	(585,770)	25
<b>(1,169,565)</b>	<b>(1,153,556)</b>	<b>(1,277,824)</b>	<b>(1,239,592)</b>	<b>Non-current liabilities</b>	<b>(1,334,259)</b>	<b>(1,287,890)</b>	
<b>263,238</b>	<b>277,827</b>	<b>186,841</b>	<b>224,241</b>	<b>Net assets</b>	<b>115,404</b>	<b>160,851</b>	
14,423	14,423	11,601	11,601	<b>Usable reserves:</b>			
2,845	2,845	6,160	6,160	Capital Receipts Reserve	9,813	9,813	
16,797	16,797	13,668	13,668	Capital Grants Unapplied	14,924	14,924	
5,473	5,473	5,205	5,205	General Fund - General Reserve	14,807	14,807	
27,359	27,359	33,954	33,954	General Fund - LMS Reserve	6,249	6,249	
33,774	33,774	36,150	36,150	Housing Revenue Account	31,553	31,553	
0	0	0	0	Earmarked Reserves	31,848	31,848	
1,351	0	691	0	Major Repairs Reserve	0	0	
(15,940)	0	(38,090)	0	Useable Reserves of Group Entities	803	0	
<b>86,082</b>	<b>100,671</b>	<b>69,339</b>	<b>106,738</b>	TGHC Pension Reserve	(46,250)	0	
				<b>Total usable reserves</b>	<b>63,747</b>	<b>109,194</b>	6b
<b>177,156</b>	<b>177,156</b>	<b>117,502</b>	<b>117,502</b>	<b>Unusable reserves</b>	<b>51,657</b>	<b>51,657</b>	
<b>263,238</b>	<b>277,827</b>	<b>186,841</b>	<b>224,240</b>	<b>Total reserves</b>	<b>115,404</b>	<b>160,851</b>	

\* Restated to categorise The Gateshead Housing Company Pension Reserve as a useable reserve.

Signed:

Date:

**Darren Collins**  
Strategic Director, Corporate Resources

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# Cash Flow Statement

2017/18 £000s	2017/18 £000s		2018/19 £000s	2018/19 £000s
<b>Group (Restated*)</b>	<b>Gateshead (Restated*)</b>		<b>Group</b>	<b>Gateshead</b>
<b>45,937</b>	<b>22,477</b>	<b>Net (surplus) or deficit on the provision of services</b>	<b>95,988</b>	<b>84,190</b>
		<b>Adjustments to net surplus or deficit on the provision of service for non-cash movements:</b>		
(44,176)	(43,904)	Depreciation of non-current assets	(44,748)	(44,477)
(14,056)	(14,056)	Impairment / downward revaluation of non-current assets	(31,303)	(31,303)
(854)	(854)	Amortisation of intangible non-current assets	(816)	(816)
(3,100)	(3,100)	Pension adjustments	(43,660)	(39,800)
(22,366)	(363)	Increase/decrease in impairment for provision for bad debts	(7,138)	(151)
(1,710)	(1,710)	Contributions (to) / from provisions	1,710	1,710
(21,678)	(21,678)	Carrying amount of property, plant and equipment, investment property, assets held for sale and intangible assets sold	(8,504)	(8,504)
276	(749)	(Decrease)/increase in inventories	250	189
4,360	5,826	(Decrease)/increase in debtors	12,094	12,633
6,447	4,745	Decrease/(increase) in creditors	(985)	34
		Decrease/(increase) in valuation of financial instruments	(15,602)	(15,602)
	-	Other non-cash movement	213	213
<b>(98,857)</b>	<b>(75,843)</b>	<b>Adjustments for items included in the net surplus or deficit on the provision of service that are investing or financing activities:</b>	<b>(138,489)</b>	<b>(125,874)</b>
8,923	8,923	Proceeds from the disposal of PPE, investment property, assets held for sale and intangible assets	8,095	8,095
23,066	23,066	Capital grants credited to surplus or deficit on the provision of services	30,111	30,111
<b>31,989</b>	<b>31,989</b>		<b>38,206</b>	<b>38,206</b>
<b>(20,931)</b>	<b>(21,377)</b>	<b>Net cash flows from operating activities</b>	<b>(4,295)</b>	<b>(3,478)</b>
		<b>Cash flows for operating activities include the following:</b>		
25,576	26,446	Interest paid	39,595	40,635
(1,817)	(1,814)	Interest received	(2,117)	(2,112)
(2,599)	(2,599)	Dividends received	(200)	(200)
<b>21,160</b>	<b>22,033</b>		<b>37,277</b>	<b>38,322</b>

Part 2: Cash Flow Statement

		<b>Net cash flows from investing activities:</b>		
71,579	71,463	Purchase of property, plant and equipment, investment property, assets held for sale and intangible assets	64,959	64,880
264,000	264,000	Purchase of short term and long term investments	138,500	138,500
0	0	Other payments for investing activities	0	0
(8,923)	(8,923)	Proceeds from the sale of property, plant and equipment, investment property, assets held for sale and intangible assets	(8,095)	(8,095)
(239,500)	(239,500)	Proceeds from the sale of short term and long term investments	(146,000)	(146,000)
(28,437)	(28,437)	Capital grants received (government)	(24,054)	(24,054)
3	0	Other receipts for investing activities	5	
<b>58,722</b>	<b>58,603</b>	<b>Net cash flows from investing activities</b>	<b>25,315</b>	<b>25,231</b>
		<b>Net cash flows from financing activities:</b>		
(85,000)	(85,000)	Cash receipts of short and long term borrowing	(115,000)	(115,000)
3,022	3,022	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on Balance Sheet PFI contracts	3,121	3,121
4,847	44,847	Repayment of short and long term borrowings	101,474	101,474
379	1,379	Other payments/receipts for financing activities	(955)	(955)
<b>(35,752)</b>	<b>(35,752)</b>	<b>Net cash flows from financing activities</b>	<b>(11,360)</b>	<b>(11,360)</b>
<b>1,166</b>	<b>1,474</b>	<b>Net (increase)/ decrease in cash and cash equivalents</b>	<b>8,615</b>	<b>10,393</b>
<b>11,246</b>	<b>6,668</b>	<b>Cash and cash equivalents at the beginning of the period</b>	<b>10,080</b>	<b>5,194</b>
<b>10,080</b>	<b>5,194</b>	<b>Cash and cash equivalents at the end of the period</b>	<b>1,465</b>	<b>(5,199)</b>

# Notes to the Core Financial Statements

## 1. Significant Accounting Policies

This Statement of Accounts summarises the Council's transactions during the financial year and its position at the year-end. Legislation<sup>12</sup> requires that the Council prepare the Statement annually, and in accordance with proper practice (the local government Code of Practice and international accounting standards).

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

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

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

## 2. Critical judgements in applying accounting policies

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

- **Leases:** determination as to whether lease arrangements are finance or operating leases;
- **PFI:** a determination as to whether PFI assets and liabilities are on- or off-Balance Sheet;
- **Provisions, contingent liabilities and contingent assets:** an assessment of future liabilities and assets that may constitute provisions, contingent liabilities or contingent assets;
- **Group accounts:**
  - An additional transfer of staff from the Council to The Gateshead Housing Company, a subsidiary of the Council, on 1 April 2017 resulted in a significant increase in the pension deficit. This meant the value of The Gateshead Housing Company warranted the preparation of group accounts.
  - In the event that TGHC were wound up, prior to the agreed contract-end date, the Council has guaranteed to fund the past service pension deficit. The Pension Committee agreed the Council's guarantee to fund any pension deficit arising, were the liability to fall due. Therefore, in such a case, there is no possibility of reimbursement from the other member organisations of the Tyne and Wear Pension Fund. This guarantee has been judged to be a guarantee against financial risk under IFRS 9, *Financial Instruments*. However, the likelihood of any financial risk materialising has been assessed as so low that acquiring a Fair Value has not been considered necessary.
  - The transfer of staff to TGHC resulted in a one-off gain on settlement of £9.87m in 2017/18 which is presented in the pension disclosures in Note 25 as well as in the Comprehensive Income and Expenditure Statements as an exceptional item.
  - The differences in accounting policies between the Council and the Gateshead Housing Company are immaterial, see note 7 for further information; and
- **Future government funding:** Council assets may be impaired as a result of the potential need to close facilities / reduce levels of service provision.

## 3. Events after the Balance Sheet date

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

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

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

<sup>12</sup> [www.legislation.gov.uk/ukxi/2015/234/pdfs/ukxi\\_20150234\\_en.pdf](http://www.legislation.gov.uk/ukxi/2015/234/pdfs/ukxi_20150234_en.pdf)

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

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A number of changes to accounting standards may affect the Statement of Accounts from 1 April 2019 and may require retrospective application:

- Amendments to IAS 40 *Investment Property: Transfers of Investment Property*
- *Annual Improvement to IFRS Standards 2014 – 2016 Cycle*
- IFRIC 22 *Foreign Current Transactions and Advance Consideration*
- IFRIC 23 *Uncertainty over Income Tax Treatments*
- Amendments to IFRS 9 *Financial Instruments: Prepayment Features with Negative Compensation*

These have been assessed and it is not expected that any will have a material impact. In addition to the above, IFRS 16 *Leases* is a new standard which replaces IAS 17 from April 2020 and establishes a new model for lessees; its impact may be material given the value of the Council's leases (see Note 11).

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

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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 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- **Pension liabilities:** estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. Sensitivities are included in Note 25;
- **Depreciation:** assets are depreciated over their estimated useful lives and are based on assumptions about the level of repairs and maintenance that will be incurred and useful economic lives. Depreciation totalled £179.2m as at 31 March 2019; a change in methodology resulting in a 1% movement would change the Balance Sheet by £1.8m;
- **Revaluations:** a 1% change in asset valuation would equate to a £13.5m, which would represent a material movement - as such, this presents a significant risk of misstatement. To manage this risk, assets valued at more than £40,000 are subject to the Council's five-yearly rolling programme of revaluations. To ensure that there is no possibility of material changes in value between valuations and to provide additional assurance, the Council's housing stock and significant assets are valued every year (full details are included in Note 17), an annual review of market conditions (including reviews at the year-end) for all asset categories are undertaken to ensure that the value of assets as at 31 March is not materially misstated. In 2018/19, the Council revalued £970m of its property, plant and equipment (£1.347bn total); and
- **Provisions:** the Council makes prudent provision for likely future liabilities, such as insurance costs and the impact of unpaid debts. Changes in assumptions are very unlikely to materially affect the Statement of Accounts. A 1% change in provisions would equate to £0.1m, which would not be material. The Council also holds general and earmarked reserves that can be called upon in the event of major unexpected liabilities arising.

### 6. Movement in Reserves Statement adjustments

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

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

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

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

	General Fund	Earmarked reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
<b>2018/19 movements (£000s)</b>							
Charges for depreciation of non-current assets	30,209	0	0	14,268	0	0	* (44,477)
Impairment and revaluation losses (charged to <i>surplus or deficit on provision of services</i> ) of non-current assets	17,424	0	13,879	0	0	0	* (31,303)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	(30,111)	0	0	0	0	14,080	*16,031
Net gain or loss on sale of non-current assets	1,385	0	(976)	0	8,094	0	∞ (8,504)
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	39,629	0	170	0	0	0	≠ (39,800)
Statutory provision for repayment of debt	(14,803)	0	0	0	0	0	*14,803
Capital expenditure charged to the General Fund / HRA	(944)	0	(9,997)	9,997	0	0	*944
Transfers to/from earmarked reserves	4,301	(4,302)	0	0	0	0	0
Other transfers to/from reserves required by legislation	33,706	0	(11)	(24,265)	(9,882)	(5,316)	◊ 5,768
<b>Adjustments between accounting basis and funding basis under regulations</b>	<b>80,796</b>	<b>(4,302)</b>	<b>3,065</b>	<b>0</b>	<b>(1,787)</b>	<b>8,764</b>	<b>(86,538)</b>
* All charged to Capital Adjustment Account; ∞ (1,807) to Revaluation Reserve and (6,696) to Capital Adjustment Account; ≠ all charged to Pension Reserve; ◊ includes 18,726 to Capital Adjustment Account							
<b>2017/18 movements (£000s)</b>							
Charges for depreciation of non-current assets	29,915	0	0	13,989	0	0	* (43,904)
Impairment and revaluation losses (charged to <i>surplus or deficit on provision of services</i> ) of non-current assets	10,239	0	3,817	0	0	0	* (14,056)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	(23,069)	0	0	0	0	5,192	*17,877
Net gain or loss on sale of non-current assets	13,156	0	(418)	0	8,940	0	∞ (21,678)
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	12,814	0	156	0	0	0	≠ (12,970)
Statutory provision for repayment of debt	(13,670)	0	0	0	0	0	*13,670
Capital expenditure charged to the General Fund / HRA	(1,197)	0	(2,345)	2,335	0	0	*1,207
Transfers to/from earmarked reserves	(2,376)	2,376	0	0	0	0	0
Other transfers to/from reserves required by legislation	8,420	0	103	(16,324)	(11,762)	(1,877)	◊ 21,440
<b>Adjustments between accounting basis and funding basis under regulations</b>	<b>34,232</b>	<b>2,376</b>	<b>1,313</b>	<b>0</b>	<b>(2,822)</b>	<b>3,315</b>	<b>(38,414)</b>
* All charged to Capital Adjustment Account; ∞ (1,739) to Revaluation Reserve and (19,939) to Capital Adjustment Account; ≠ all charged to Pension Reserve; ◊ includes 24,217 to Capital Adjustment Account							

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

Balance 31/03/18 £000s		Transfers in £000s	Transfers out £000s	Balance 31/03/19 £000s
	<b>Useable reserves</b>			
	General Fund balance:			
13,668	General Reserve	9,314	(8,175)	14,807
5,205	LMS Budget Share Reserve	1,925	(881)	6,249
<b>18,873</b>	<b>General Fund</b>	<b>11,239</b>	<b>(9,056)</b>	<b>21,056</b>
	Earmarked General Fund reserves:			
3,000	Insurance	0	0	3,000
1,000	Grant clawback	0	0	1,000
6,009	Workforce development	0	0	6,009
2,427	Developers' contributions	313	(1,034)	1,706
1,952	Unapplied revenue grants	105	(942)	1,115
4,212	Economic growth, culture and place shaping	0	(1,327)	2,885
5,000	Business rates	0	0	5,000
2,571	Budget flexibility	1,149	(1,430)	2,290
648	Discretionary Social Fund	0	(113)	535
2,632	Public health	0	(440)	2,192
1,156	Dedicated Schools Grant (DSG)	0	(340)	816
4,206	Strategic revenue investment	0	0	4,206
862	Anti-poverty	0	(105)	757
475	Voluntary sector	0	(138)	337
<b>36,150</b>	<b>Total earmarked General Fund reserves:</b>	<b>1,567</b>	<b>(5,869)</b>	<b>31,848</b>
33,954	Housing Revenue Account (HRA) balance	0	(2,401)	31,553
	Earmarked HRA reserves:			
0	Major Repairs Reserve	14,268	(14,268)	0
11,601	Capital Receipts Reserve	8,094	(9,882)	9,813
6,160	Capital Grants Unapplied	14,080	(5,316)	14,924
<b>106,738</b>	<b>Total usable reserves</b>	<b>49,248</b>	<b>(46,792)</b>	<b>109,194</b>
	<b>Unusable reserves</b>			
189,630	Revaluation Reserve	0	(7,387)	182,243
492,668	Capital Adjustment Account	69,972	(99,438)	463,202
(3,690)	Financial Instrument Adjustment Account	95	(15,640)	(19,235)
12,115	Available-for-sale Financial Instruments Reserve		(12,115)	0
0	Financial Instrument Revaluation Reserve	12,226	0	12,226
243	Deferred Capital Receipts Reserve	0	(167)	76
(1,427)	Collection Fund Adjustment Account	14,510	(10,981)	2,102
(3,187)	Accumulated Absences Account	0	0	(3,187)
(568,850)	Pensions Reserve	0	(16,920)	(585,770)
<b>117,502</b>	<b>Total unusable reserves</b>	<b>84,688</b>	<b>(150,533)</b>	<b>51,657</b>
<b>224,240</b>	<b>Total reserves of the Council</b>	<b>133,936</b>	<b>(197,325)</b>	<b>160,851</b>
691	P&L Reserve - TGHC	0	112	803
(38,090)	Pensions Reserve - TGHC	0	(8,160)	(46,250)
<b>186,841</b>	<b>Total reserves of the Group</b>	<b>133,936</b>	<b>(204,373)</b>	<b>115,404</b>

### 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<sup>13</sup>. It contains the balance of income and expenditure as defined by the Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

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

- **Insurance:** the reserve is to allow for possible claims against the Council which are not covered by external policies and to cover insured liability claims falling within the claims excess and policy stop loss;
- **Grant clawback:** the reserve is for grant received which may need to be repaid as a result of clawback of externally funded projects, such as European funded schemes. The balance required is based on a specific calculation related to exposure;
- **Workforce development:** this reserve is to fund redundancy costs and training and development in support of the workforce plan. This is the third recourse available to fund redundancy costs corporately after use of the provision and contingency;
- **Developers' contributions:** this reserve consists of developer contributions in respect of agreed regeneration schemes following Section 38 and 106 agreements. The movement on the reserve will fluctuate depending on the use of the contributions to support regeneration schemes such as play areas in areas of new housing;
- **Unapplied revenue grants:** this reserve was created as a result of changes to the Accounting Code of Practice whereby unused grants and contributions, without conditions attached, should be appropriated to reserves to fund future expenditure rather than creating creditors on the Balance Sheet. The reserve represents an accounting treatment;
- **Economic growth, culture and place shaping:** this reserve is to stimulate economic growth and to lever investment into the area to support Culture 2030. It provides funding to support a key theme underpinning the MTFS;
- **Business rates:** this reserve was created to mitigate the risk of current and future business rate valuation appeals and other risks associated with the business rates retention scheme;
- **Budget flexibility:** this reserve was created in 2013/14 to allow for the effective management of budgets across financial years.
- **Discretionary Social Fund:** this reserve supports social fund activities following the end of the discretionary social fund grant. The Council is committed to utilising this fund in line with the original intent;
- **Public health:** the responsibility for Public Health transferred to local authorities on the 1 April 2013. The funding is ring-fenced for future Public Health use.
- **Dedicated schools grant (DSG):** this reserve is ring-fenced for schools use and cannot be used for other priorities within the Council. Use of this reserve will be agreed by Schools Forum;
- **Strategic revenue investment:** this reserve is to be used to support the financial strategy contained within the Council MTFS by allocating investment on a time limited short-term basis in order to generate future savings, manage demand through investment in prevention strategies and to generate and maximise income;
- **Anti-poverty:** this reserve is to mitigate the impact of poverty and social exclusion. The reserve supports the Anti-Poverty Strategy and also assists in alleviating the impact of welfare reform and austerity on the residents of Gateshead, consistent with Council priorities; and

<sup>13</sup> See [www.legislation.gov.uk/ukpga/1989/42/pdfs/ukpga\\_19890042\\_en.pdf](http://www.legislation.gov.uk/ukpga/1989/42/pdfs/ukpga_19890042_en.pdf)

- **Voluntary sector:** this reserve is used to mitigate savings in the voluntary sector where appropriate, prepare the sector for increasing demand by increasing capacity and skills, and prepare the sector for the transition to any new operating arrangements.

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

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

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

### Unusable Reserves

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

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

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

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

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

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

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

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

The **Accumulated Absences Account** absorbs differences that would otherwise arise on the General Fund balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March 2018. Statutory arrangements require that the impact on the General Fund is neutralised by transfers to/from the account.

The **Pensions Reserve** absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing

## Part 2: Notes to the Core Financial Statements

assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require that benefits earned are to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements ensure that funding will have been set aside by the time the benefits come to be paid. TGHC's pension reserve is shown at the bottom of the reserves table on page 28.

### 7. Comprehensive Income and Expenditure Statement (CIES) information

#### a. Key accounting policies:

##### Accruals of income and expenditure (Council and Group)

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

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

##### Charges to revenue for non-current assets

###### Group:

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

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

###### Council Only:

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

##### Value added tax (VAT) (Council and Group)

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

##### Council tax and business rates (Council only)

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

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

## b. Analysis of items below Cost of Services:

2017/18 £000s		2018/19 £000s
	<b>Other operating expenditure</b>	
12,755	(Gains) / losses on the disposal of non-current assets	409
	Precepts and levies:	
163	Environment Agency levy	165
19	Tyne Port Health Authority precept	21
11,291	Tyne and Wear Integrated Transport Authority levy	11,037
11	Lamesley Parish Council precept	11
3,057	Payments to the housing capital receipts pool	2,626
<b>27,296</b>		<b>14,269</b>
	<b>Financing and investment income and expenditure</b>	
29,603	Interest payable and similar charges	44,398
13,300	Net interest on defined benefit liability / (asset)	14,340
(1,845)	Interest receivable and similar income	(2,345)
1,159	(Surpluses) / deficits on trading activities	2,890
<b>42,217</b>		<b>59,283</b>
	<b>Taxation and non-specific grant income</b>	
(83,685)	Council tax income	(88,935)
(48,411)	Government grants not attributable to services	(42,815)
(23,067)	Capital grants and contributions	(30,111)
(40,265)	Business rates retained	(44,182)
<b>(195,428)</b>		<b>(206,043)</b>

## c. Material items of income or expense:

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

- £44.477m depreciation - see Notes 6a, 17 and HRA Notes 5 and 6;
- £31.303m revaluation losses - see Notes 6a, 17 and HRA Notes 5 and 6;
- £33.250m re-measurement of net defined liability (Gateshead) - see Note 25;
- £2.188m deficits on revaluation - see Note 17.

8. Expenditure and funding analysis

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

2017/18			2018/19			
Net expenditure chargeable to the General Fund / HRA £000s	Adjustments between funding and accounting basis <sup>†</sup> £000s	Net expenditure in the CIES £000s		Net expenditure chargeable to the General Fund / HRA £000s	Adjustments between funding and accounting basis <sup>†</sup> £000s	Net expenditure in the CIES £000s
121,953	(25,516)	96,437	Care, Wellbeing & Learning	125,197	(22,650)	102,548
21,299	17,607	38,907	Communities & Environment	21,363	40,601	61,964
16,913	15,216	32,129	Corporate Resources	16,251	24,408	40,659
			Corporate Services & Governance and Office of the Chief Executive			
5,891	7,055	12,945	Other Corporate Income and Expenditure	5,887	11,474	17,362
5,539	(4,776)	765	Schools	(69)	657	588
268	(3,604)	(3,338)	Local authority housing (HRA)	(1,044)	1,826	782
(6,595)	(12,989)	(19,584)	Exceptional item - IAS 19 settlement adjustment	2,401	(9,624)	(7,223)
0	(9,870)	(9,870)	<b>Net Cost of Services</b>	0	0	0
165,268	(16,877)	<b>148,391</b>	Other income and expenditure	<b>169,986</b>	<b>46,694</b>	<b>216,681</b>
(168,466)	42,552	(125,914)	<b>(Surplus) / Deficit</b>	(169,768)	37,278	(132,490)
<b>(3,198)</b>	<b>25,675</b>	<b>22,477</b>		<b>218</b>	<b>83,972</b>	<b>84,190</b>
		<b>49,629</b>	<b>Opening General Fund and HRA balance</b>	<b>52,827</b>		
		<b>3,198</b>	+/- surplus/(deficit) on General Fund and HRA balance	<b>(218)</b>		
		<b>52,827</b>	<b>Closing General Fund and HRA balance</b>	<b>52,609</b>		

<sup>†</sup> Further analysis of *adjustments between funding and accounting basis* is provided in Note 6a

<sup>Ω</sup> CIES breakdown of this figure (capital, pensions and other adjustments) has been provided on the following page

<sup>\$</sup> A breakdown of this movement can be found in Note 6b

2017/18					2018/19			
Adjustments for capital purposes (Note 1) £000s	Net change for pension adjustments (Note 2) £000s	Other differences (Note 3) £000s	Total Adjustments £000s		Adjustments for capital purposes (Note 1) £000s	Net change for pension adjustments (Note 2) £000s	Other differences (Note 3) £000s	Total Adjustments £000s
5,031	559	(31,107)	(25,517)	Care, Wellbeing & Learning	7,070	9,389	(39,109)	(22,650)
15,246	235	2,126	17,607	Communities & Environment	33,254	4,794	2,553	40,601
13,728	220	1,268	15,216	Corporate Resources	13,125	4,340	6,943	24,408
6,589	90	376	7,055	Corporate Services & Governance and Office of the Chief Executive	8,711	1,682	1,081	11,474
(152)	1,554	(6,178)	(4,776)	Other Corporate Income and Expenditure	48	705	(95)	657
(347)	(3,236)	(21)	(3,604)	Schools	(156)	1,500	483	1,826
(13,261)	156	116	(12,989)	Local authority housing (HRA)	(9,707)	83	0	(9,624)
0	(9,870)	0	(9,870)	Exceptional item - IAS 19 settlement adjustment	0	0	0	0
<b>26,834</b>	<b>(10,292)</b>	<b>(33,420)</b>	<b>(16,878)</b>	<b>Net Cost of Services</b>	<b>52,345</b>	<b>22,493</b>	<b>(28,144)</b>	<b>46,694</b>
(3,690)	13,392	32,851	42,553	Other income and expenditure from the Expenditure and Funding Analysis	(10,968)	17,309	30,938	37,278
<b>23,144</b>	<b>3,100</b>	<b>(569)</b>	<b>25,675</b>	<b>Difference between General Fund surplus or deficit and CIES (surplus) / deficit on the Provision of Services</b>	<b>41,377</b>	<b>39,801</b>	<b>2,794</b>	<b>83,972</b>

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1. Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The *Taxation and Non Specific Grant Income and Expenditure* line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

2. Net change for the removal of pension contributions and the addition of IAS 19 *Employee Benefits* pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

3. Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

2017/18 £000s		2018/19 £000s
	<b>Expenditure</b>	
197,984	Employee expenses	233,651
83,069	Other Services	87,799
234,750	Third party and transfer payments	228,874
16,431	Support service recharge	8,383
66,081	Depreciation, amortisation and impairment	81,907
11,484	Precepts and Levies	11,234
<b>609,799</b>		<b>651,848</b>
(19,584)	Housing Revenue Account (HRA)	(7,223)
(9,870)	Exceptional item - IAS 19 settlement adjustment	0
	<b>Income</b>	
(285,641)	Government grants and contributions	(271,915)
(53,335)	Other grants, reimbursements and contributions	(49,293)
(60,667)	Fees, charges and other service income	(67,266)
(1,834)	Interest and investment income	(2,331)
(32,441)	Recharges	(36,513)
(123,950)	Income from council tax and business rates	(133,117)
<b>(557,868)</b>		<b>(560,435)</b>
<b>22,477</b>	<b>(Surplus) or Deficit on the Provision of Services</b>	<b>84,190</b>

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

2017/18 £000s		2018/19 £000s
	<b>Fees, charges and other service income by segment</b>	
(15,741)	Care, Wellbeing & Learning	(17,187)
(13,692)	Communities & Environment	(18,471)
(21,652)	Corporate Resources	(22,013)
(5,528)	Corporate Services & Governance and Office of the Chief Executive	(5,484)
(465)	Other Corporate Income	(514)
(3,589)	Schools	(3,597)
<b>(60,667)</b>	<b>Total</b>	<b>(67,266)</b>

## 9. Dedicated Schools Grant

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

The grant can only be applied to meet expenditure included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2018, which provides for two elements: *Central expenditure*, which is a restricted range of services provided on a council-wide basis, and *Individual Schools Budget (ISB)*, whereby each school is allocated a delegated budget share. Overspends and underspends on each element are required to be accounted for separately.

Details of the deployment of DSG receivable for 2018/19 are as follows:

	<b>Central expenditure £000s</b>	<b>ISB £000s</b>	<b>Total £000s</b>
Final DSG for 2018/19 before academy recoupment	28,280	118,715	146,995
Academy figure recouped for 2018/19	(1,093)	(46,481)	(47,574)
<b>Total DSG after academy recoupment 2018/19</b>	<b>27,187</b>	<b>72,234</b>	<b>99,421</b>
Plus: brought forward from 2017/18	803	353	1,156
Less: carry-forward to 2019/20 agreed in advance	0	0	0
<b>Agreed initial budgeted distribution in 2018/19</b>	<b>27,990</b>	<b>72,587</b>	<b>100,577</b>
In-year adjustments	644	0	644
<b>Final budgeted distribution in 2018/19</b>	<b>28,634</b>	<b>72,587</b>	<b>101,221</b>
Less: actual central expenditure	(28,391)		(28,391)
Less: actual ISB deployed to schools		(72,014)	(72,014)
Plus: local authority contribution for 2018/19	0	0	0
<b>Carry-forward to 2019/20</b>	<b>243</b>	<b>573</b>	<b>816</b>

## 10. Government and non-government grants

Whether paid on account, by instalments or in arrears, government grants and third-party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments and that the grants or contributions will be received.

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

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

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

The Council has deviated from the Code in an immaterial way with regard to the treatment of unspent, non-conditional revenue grant income and contributions. The recommended treatment, defined within the Code of Practice, is to appropriate any income unspent at the year-end into an earmarked reserve (unapplied revenue grants reserve). However, the Council has set a threshold of £100,000; any grants below this level are classified as receipts in advance (within creditors on the Balance Sheet; see also Note 6b). The reasons for this are operational: approval from Cabinet is required to appropriate funds from reserves, which is not practical for small amounts on a regular basis, and it would increase the complexity and reduce the transparency of the Council's budget monitoring processes. The value of the Code deviation was £0.924m in 2018/19 (£0.686m in 2017/18).

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

2017/18 £000s		2018/19 £000s
	<b>a) General government grants not attributable to Services</b>	
(42,123)	Revenue Support and Top Up Grant	(36,194)
(6,288)	Other Grants	(6,622)
<b>(48,411)</b>		<b>(42,816)</b>
	<b>b) Specific government grants attributable to Services</b>	
(10,588)	Ministry of Housing, Communities and Local Government	(12,754)
(122,320)	Department for Education	(16,856)
(78,884)	Department for Work and Pensions	(122,493)
(17,379)	Department for Health and Social Care	(67,566)
(8,060)	Joint / other	(9,473)
<b>(237,231)</b>		<b>(229,142)</b>
	<b>c) Capital grant income not attributable to Services</b>	
(1,827)	Ministry of Housing, Communities and Local Government	(1,907)
(3,080)	Department for Education	(13,452)
(5,087)	European Regional Development Fund	(2,518)
(12,576)	Other government grants	(10,532)
(450)	Other non-government grants	(764)
0	Other non-government contributions	(713)
<b>(23,020)</b>		<b>(29,886)</b>
<b>(308,662)</b>	<b>Total grants and government contributions</b>	<b>(301,843)</b>
	<b>d) Other contributions and donations</b>	
(53,464)	Other revenue contributions attributable to Services	(49,161)
0	Other capital contributions not attributable to Services	0
(46)	Donated assets not attributable to Services	(225)
<b>(53,510)</b>	<b>Total other contributions</b>	<b>(49,386)</b>

## 11. Operating leases

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

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

	31/03/18 £000s	31/03/19 £000s
Not later than one year	3,885	4,485
Later than one year and not later than five years	9,179	10,157
Later than five years	46,138	137,435
	<b>59,202</b>	<b>152,077</b>

## 12. Councillors' allowances

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

2017/18 £000s		2018/19 £000s
748	Basic allowance	768
418	Special responsibility allowance	436
12	Other allowances and expenses	6
<b>1,178</b>	<b>Total</b>	<b>1,210</b>

More information on the allowances scheme can be found on the Council's website<sup>14</sup>.

## 13. External audit costs

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

2017/18 £000s		2018/19 £000s
142	Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year (Mazars LLP)	121
13	Fees payable in respect of other services provided by Mazars LLP during the year	6
0	Fees payable in respect of other services provided by KPMG LLP during the year	5
<b>155</b>	<b>Total Council external audit costs</b>	<b>132</b>
25	Fees payable to external auditors with regard to external audit services for TGHC (KPMG LLP)	27
<b>180</b>	<b>Total Group external audit costs</b>	<b>159</b>

<sup>14</sup> See [www.gateshead.gov.uk/Council%20and%20Democracy/Councillors-and-committees/MembersAllowancesScheme.aspx](http://www.gateshead.gov.uk/Council%20and%20Democracy/Councillors-and-committees/MembersAllowancesScheme.aspx)

14. Officers' remuneration

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

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

Remuneration of senior employees 2017/18						
Post holder information	Salary, fees & allowances	Expenses allowances *	Loss of Employment Costs	Non-cash benefits	Pension contribution	Total
	£	£		£	£	£
<b>Gateshead</b>						
Chief Executive, S Ramsey	161,490	6,892	0	0	29,391	<b>197,773</b>
Strategic Director, Corporate Resources	114,832	0	0	0	20,899	<b>135,731</b>
Strategic Director, Communities and Environment	114,832	0	0	0	20,899	<b>135,731</b>
Strategic Director, Corporate Services and Governance	114,832	0	0	0	20,899	<b>135,731</b>
Strategic Director, Care, Wellbeing & Learning (from 04/09/2017)	75,588	0	0	0	13,820	<b>89,408</b>
Director of Public Health	85,974	0	0	22	12,363	<b>98,359</b>
	<b>667,548</b>	<b>6,892</b>	<b>0</b>	<b>22</b>	<b>118,271</b>	<b>792,733</b>
* Returning Officer fees						
<b>TGHC</b>						
Managing Director, J Mallen-Beadle	112,162	0	0	742	20,153	<b>133,057</b>
	<b>112,162</b>	<b>0</b>	<b>0</b>	<b>742</b>	<b>20,153</b>	<b>133,057</b>

The number of employees (including schools but excluding those detailed above) whose remuneration (excluding pension contributions) was over £50,000 is summarised below. The table has been prepared to include and exclude the effect of any redundancies taking place in 2018/19 to indicate the cost impact on senior staff:

Council	Number of Employees			
	Incl. redundancies		Excl. redundancies	
	2017/18	2018/19	2017/18	2018/19
£50,000 - £54,999	46	51	45	48
£55,000 - £59,999	31	33	30	33
£60,000 - £64,999	23	26	23	25
£65,000 - £69,999	17	13	17	12
£70,000 - £74,999	5	8	5	8
£75,000 - £79,999	5	9	5	9
£80,000 - £84,999	6	4	6	3
£85,000 - £89,999	2	3	2	3
£90,000 - £94,999	2	2	2	2
£95,000 - £99,999	4	5	4	5
£100,000 - £104,999	0	0	0	0
£105,000 - £109,999	0	0	0	0

### Termination benefits / Exit packages

The 2018/19 Statement of Accounts recognises a cost of £1.986m in relation to redundancies and other terminations in 2018/19, including expected redundancies in 2019/20 and 2020/21. This includes 15 compulsory redundancies (13 in 2017/18), 46 voluntary redundancies (86 in 2017/18) and 2 other terminations (4 in 2017/18). The total cost of redundancies in 2018/19 totalled £3.285m. £2.704m of this expenditure was funded from a balance sheet provision and recognised in 2017/18, with the remaining expenditure of £0.581m being funded from revenue. In addition, as part of the 2018/19 revenue outturn, funds were set aside to create a provision of £1.405m for redundancies in 2019/20 and 2020/21. These costs include redundancy payments made to employees and strain on the fund costs payable to the appropriate pension fund:

2017/18					Exit package cost band	2018/19				
Number				Cost		Number				Cost
CRs	VRs	Other	Total	£000s	CRs	VRs	Other	Total	£000s	
11	7	4	22	115	£0 - £20,000	12	4	2	18	107
2	6	0	8	228	£20,001 - £40,000	3	7	0	10	278
0	69	0	69	3,611	£40,001 - £60,000	0	35	0	35	1,601
0	2	0	2	129	£60,001 - £80,000	0	0	0	0	0
0	1	0	1	83	£80,001 - £100,000	0	0	0	0	0
0	1	0	1	149	£100,001 - £150,000	0	0	0	0	0
0	0	0	0	0	£150,001 - £200,000	0	0	0	0	0
<b>13</b>	<b>86</b>	<b>4</b>	<b>103</b>	<b>4,315</b>	<b>Total</b>	<b>15</b>	<b>46</b>	<b>2</b>	<b>63</b>	<b>1,986</b>

### 15. Related party transactions

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

#### Central Government

The United Kingdom Government has significant influence over the general operations of the Council: it is responsible for providing the statutory framework within which the Council operates, and provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from Government departments are analysed in Note 10.

#### Councillors and senior officers

Elected councillors have direct control over the Council's financial and operating policies. The total of councillors' allowances paid in 2018/19 is shown in Note 12. During 2018/19, no works and services were commissioned from

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

During 2018/19, no related party transactions were entered into with senior officers or their close family members.

### Joint arrangements and associates

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

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

### Entities controlled or significantly influenced by the Council

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

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

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

### Newcastle Airport

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. On 4th May 2001, the seven local authority shareholders of NIAL (the "LA7") created NIAL Holdings Limited, which is 51% owned by LA7 and 49% owned by AMP Capital Investors Limited following their purchase on 16th November 2012. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited (NALAHCL), a company wholly owned by the seven authorities. NALAHCL has a called-up share capital of 10,000 shares with a nominal value of £1 each. The Council holds a 13.33% interest in NALAHCL, valued at £11.693m (£11.583m in 2017/18). The shares are not held for trading outside of the LA7.

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially impair the valuation. No such events have occurred. The shares have been revalued in year using a combination of the discounted cash flow of income method together with the guideline public company methods of the market approach to derive a fair value measurement that complies with IFRS13 and IFRS9.

Through its shares in NALAHCL the Council has an effective shareholding of 6.80% in NIAL (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of NIAL (registered number 2077766) is the provision of landing services for both commercial and freight operators. No dividend was received for the year ended 31 March 2019 (£0.952 for the year ended 31 March 2018).

NIAL Group Limited made a profit before tax of £10.443m and a profit after tax of £7.435m for the year ended 31 December 2018. In the previous year, the Group made a profit before tax of £6.884m and a profit after tax of £4.408m.

### Gateshead Trading Company

The Gateshead Trading Company Ltd (GTC) is a wholly owned subsidiary of the Council limited by shares. Its activities during 2018/19 included construction, design services and economic development. The company's turnover in 2018/19 was £0.835m (£1.473m in 2017/18). The company's cost of sales in 2018/19 was £0.869m (£1.455m in 2017/18). The company made a loss of £0.116m in 2018/19 (loss of £0.035m in 2017/18).

### **Gateshead Energy Company**

The Gateshead Energy Company (GEC) is a wholly owned subsidiary of the Council limited by shares. The Council's energy subsidiary commenced trading during 2016/17; its activities involved the management of the Council's town centre district energy network which provides heat and power to local customers. The company's turnover in 2018/19 was £2.398m (£1.165m in 2017/18). The company's cost of sales in 2018/19 was £2.578m (£1.591m in 2017/18). The company made a loss of £0.576m in 2018/19 (loss of £0.667m in 2017/18).

### **Regent Funeral Services**

Regent Funeral Services (RFS) is a wholly owned subsidiary of the Council limited by shares. RFS commenced trading during 2018/19; the principal activity of the company is the delivery of funerals and related activities. The company's turnover in 2018/19 was £0.158m. The company's cost of sales in 2018/19 was £0.101m. The company made a loss of £0.208m in 2018/19.

### **The Gateshead Housing Company**

The Gateshead Housing Company (TGHC) was formed in 2004 and is the arm's length management company for Gateshead Council which means that they manage and maintain the Council's housing stock. TGHC is wholly owned by the Council and as at 31 March 2019 employs 819 members of staff (787.35 FTE). TGHC made a loss of £7.528m for the year ended 2018/19 (loss of £23.460m in 2017/18). The company's turnover was £60.791m in 2018/19 (£56.576m in 2017/18). The company's operating costs totalled £67.284m in 2018/19 (£79.169m in 2017/18). The pension liability increased in 2018/19 to £40.980m (£38.090m in 2017/18).

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

### **Gateshead Regeneration LLP**

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

Construction is ongoing on the first tranche of sites, including schemes at Saltwell and Birtley, involving over 360 homes and over £70m of investment. There were 47 legal completions in 2018/19. In addition to the first tranche of sites GRP has planning permission for a further 62 homes on sites in Windy Nook and Rowlands Gill, with construction due to commence in 2019/20.

GRP made a loss of £0.112m for the year ended 2017/18 (£0.226m profit in 2016/17). The company's turnover was £11.222m in 2017/18 (£8.244m in 2016/17). The company's cost of sales was £11.333m in 2017/18 (£8.018m in 2016/17).

The financial projections of the company indicate that its overall profits in 2018/19 will be immaterial on an accounting basis to the Council. The company's latest accounts are available for free through the Companies House website and the 2018/19 accounts will be published by 31 December 2019.

## 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).

2017/18		2018/19		
(Profits) / losses £000s		Income £000s	Expenditure £000s	(Profits) / losses £000s
293	Building Cleaning	(4,311)	5,357	1,046
94	Civic Restaurants	(1,006)	1,217	211
314	Construction	(55)	85	30
321	Fleet	(7,614)	8,291	677
(119)	Maintenance	(6,086)	6,318	232
(4)	School Meals	(6,120)	6,868	748
479	Security	(724)	1,404	680
(219)	Highways	(18,372)	18,881	509
<b>1,159</b>		<b>(44,288)</b>	<b>48,421</b>	<b>4,133</b>

## 17. Property, plant and equipment

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

- **Recognition:** expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. The Council has a de-minimis level of £10,000 for the initial recognition of an asset on the Balance Sheet, although individual assets with a value less than this may be capitalised if they form part of a larger investment programme which exceeds the de-minimis level (such as the acquisition of vehicles or ICT equipment) or relate to specific external funding requirements. Any expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.
- **Measurement:** property, plant and equipment are valued on the basis recommended by CIPFA and in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Standards (9<sup>th</sup> edition).

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

- Infrastructure assets, community assets, vehicles, plant & equipment and assets under construction (excluding investment property) are included in the Balance Sheet at historical cost, net of depreciation, where appropriate;
- Dwellings are measured at current value, determined using the basis of Existing Use Value for Social Housing (EUV-SH);
- Surplus assets are measured at fair value, estimated at highest and best use from a market participant's perspective; and
- All other classes of asset are measured at current value, determined as the amount that would be paid for the asset in its existing use.

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

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

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

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

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

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

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

Valuations are carried out by BNP Paribas, as at 1 April in the reporting period.

- **Disposal of Assets:** when an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the *Other Operating Expenditure* line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any income arising from the disposal of an asset in excess of £10,000 is categorised as a capital receipt. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.
- **Depreciation:** IAS 16 *Property, Plant and Equipment*<sup>15</sup> requires depreciation to be provided for all non-current assets with a finite useful life (which is determined at the time of acquisition or revaluation) according to the following policy:
  - A full year's depreciation is charged on newly acquired assets in the year of acquisition, although assets in the course of construction are not depreciated until brought into use;
  - Depreciation is calculated using the straight-line method; and
  - Generally, assets are depreciated in accordance with the following estimate of useful lives:

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

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

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

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

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

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

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

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

<sup>15</sup> See <http://www.ifrs.org/Documents/IAS16.pdf>

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

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

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

<b>Surplus property</b>				
Fair value using:	Level 1	Level 2	Level 3	Total
	£000s	£000s	£000s	£000s
Residential Land	0	25,991	0	<b>25,991</b>
Offices	0	841	0	<b>841</b>
<b>Total</b>	<b>0</b>	<b>26,832</b>	<b>0</b>	<b>26,832</b>

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

Gross book values:

	Other land and buildings *	Buildings under finance lease †	Assets under construction ‡	Vehicles, plant and equipment ‡	Council dwellings *	Infrastructure ‡	Community assets †	Surplus assets §	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Cost or valuation</b>									
<b>Balance at 1 April 2017</b>	<b>465,571</b>	<b>50,764</b>	<b>6,803</b>	<b>77,614</b>	<b>734,720</b>	<b>194,133</b>	<b>5,110</b>	<b>27,646</b>	<b>1,562,361</b>
Reclassifications	6,292	0	(7,042)	(37)	(105)	0	0	(2,220)	(3,112)
Additions	11,358	0	6,358	6,464	25,335	16,702	803	172	67,192
Donations	0	0	0	0	0	0	0	0	0
Disposals	(13,294)	0	0	(14,542)	(7,315)	0	0	(72)	(35,223)
Revaluation increase/(decrease) to Revaluation Reserve	222	(1,808)	0	0	(26,295)	0	0	(110)	(27,991)
Revaluation increase/(decrease) to Comprehensive I&E	(17,451)	(500)	0	0	(6,315)	0	(1)	(26)	(24,293)
Impairment Charged to Revaluation Reserve	0	0	0	0	0	0	0	0	0
Impairment Charged to Comprehensive I&E	0	0	0	0	0	0	0	0	0
<b>Balance at 31 March 2018</b>	<b>452,698</b>	<b>48,456</b>	<b>6,119</b>	<b>69,499</b>	<b>720,025</b>	<b>210,835</b>	<b>5,912</b>	<b>25,390</b>	<b>1,538,934</b>
Reclassifications	(3,076)	0	(2,592)	2,538	387	0	(3)	3,680	934
Additions	13,310	0	4,524	5,472	29,032	12,238	100	375	65,051
Donations	0	0	0	0	0	0	0	0	0
Disposals	(1,729)	0	0	(6,380)	(4,921)	0	0	0	(13,030)
Revaluation increase/(decrease) to Revaluation Reserve	(10,045)	(1,072)	0	0	(11,106)	0	0	(484)	(22,707)
Revaluation increase/(decrease) to Comprehensive I&E	(24,551)	(546)	0	0	(16,066)	0	0	(2,120)	(43,283)
Impairment Charged to Revaluation Reserve	0	0	0	0	0	0	0	0	0
Impairment Charged to Comprehensive I&E	0	0	0	0	0	0	0	0	0
<b>Balance at 31 March 2019</b>	<b>426,607</b>	<b>46,838</b>	<b>8,051</b>	<b>71,129</b>	<b>717,351</b>	<b>223,073</b>	<b>6,009</b>	<b>26,841</b>	<b>1,525,899</b>

\* at current value

† at historic cost

§ at fair value

Accumulated depreciation and net book values:

	Other land and buildings *	Buildings under finance lease ‡	Assets under construction ‡	Vehicles, plant and equipment ‡	Council dwellings *	Infrastructure ‡	Community assets ‡	Surplus assets \$	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Accumulated Depreciation</b>									
<b>Balance at 1 April 2017</b>	<b>(36,592)</b>	<b>(2,308)</b>	<b>0</b>	<b>(61,945)</b>	<b>(13,777)</b>	<b>(56,204)</b>	<b>(1)</b>	<b>(65)</b>	<b>(170,892)</b>
Reclassifications	217	0	0	22	3	0	0	44	286
Disposals	0	0	0	14,177	137	0	0	0	14,314
Depreciation written out to Revaluation Reserve on revaluation	2,371	1,808	0	0	11,040	0	0	0	15,219
Depreciation written out to Comprehensive I&E on revaluation	8,404	500	0	0	2,597	0	0	5	11,506
Depreciation	(15,380)	(2,308)	0	(6,111)	(13,787)	(6,318)	0	0	(43,904)
Depreciation written out to Revaluation Reserve on impairment	0	0	0	0	0	0	0	0	0
Depreciation written out to Comprehensive I&E on impairment	0	0	0	0	0	0	0	0	0
<b>Balance at 31 March 2018</b>	<b>(40,980)</b>	<b>(2,308)</b>	<b>0</b>	<b>(53,857)</b>	<b>(13,787)</b>	<b>(62,522)</b>	<b>(1)</b>	<b>(16)</b>	<b>(173,471)</b>
Reclassifications	414	0	0	0	(70)	0	0	(344)	0
Disposals	290	0	0	5,893	95	0	0	0	6,278
Depreciation written out to Revaluation Reserve on revaluation	7,886	1,762	0	0	10,784	0	0	0	20,445
Depreciation written out to Comprehensive I&E on revaluation	8,139	546	0	0	2,979	0	0	347	12,011
Depreciation	(15,540)	(2,337)	0	(5,660)	(14,035)	(6,889)	0	(9)	(44,470)
Depreciation written out to Revaluation Reserve on impairment	0	0	0	0	0	0	0	0	0
Depreciation written out to Comprehensive I&E on impairment	0	0	0	0	0	0	0	0	0
<b>Balance at 31 March 2019</b>	<b>(39,791)</b>	<b>(2,337)</b>	<b>0</b>	<b>(53,624)</b>	<b>(14,034)</b>	<b>(69,411)</b>	<b>(1)</b>	<b>(9)</b>	<b>(179,207)</b>

	Other land and buildings *	Buildings under finance lease ‡	Assets under construction ‡	Vehicles, plant and equipment ‡	Council dwellings *	Infrastructure ‡	Community assets ‡	Surplus assets \$	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Net Book Value at 31/03/2018</b>	<b>411,718</b>	<b>46,148</b>	<b>6,119</b>	<b>15,642</b>	<b>706,238</b>	<b>148,313</b>	<b>5,911</b>	<b>25,374</b>	<b>1,365,463</b>
<b>Net Book Value at 31/03/2019</b>	<b>386,824</b>	<b>44,501</b>	<b>8,051</b>	<b>17,505</b>	<b>703,317</b>	<b>153,662</b>	<b>6,008</b>	<b>26,832</b>	<b>1,346,692</b>

\* at current value

‡ at historic cost

\$ at fair value

**Revaluations**

Valuations are summarised in the table below:

	Other Land and Buildings	Council Dwellings	Vehicles, Plant and Equipment	Surplus Assets	Infrastructure Assets	Community Assets	Assets Under Construction	Total Valuation
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Carried at Historical Cost	1,052	0	71,129	0	223,073	6,009	8,051	309,314
Valued at Current Value as at:								
Assets valued 1 April 2018	221,258	717,351	0	26,841	0	0	0	965,450
Assets valued 1 April 2017	27,872	0	0	0	0	0	0	27,872
Assets valued 1 April 2016	35,242	0	0	0	0	0	0	35,242
Assets valued 1 April 2015	91,184	0	0	0	0	0	0	91,184
Assets valued 1 April 2014	96,837	0	0	0	0	0	0	96,837
<b>Total Cost or Valuation</b>	<b>473,445</b>	<b>717,351</b>	<b>71,129</b>	<b>26,841</b>	<b>223,073</b>	<b>6,009</b>	<b>8,051</b>	<b>1,525,899</b>

**18. Heritage assets**

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

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

- **Civic regalia:** These items are reported in the Balance Sheet at insurance valuation which is based on market values and is reviewed annually. The collection is relatively static and acquisitions and donations are rare. Where they do occur, they are initially recognised at cost and donations are recognised at valuation with reference to appropriate commercial markets.
- **Museum collections:** Any items over £10,000 are reported in the Balance Sheet at insurance valuation (2012/13 valuation, reviewed in 2016/17) which is based on market values and is reviewed annually. Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation with reference to appropriate commercial markets for the paintings using the most relevant and recent information from sales at auctions.
- **Public artwork:** Any items over £10,000 are reported in the Balance Sheet (2012/13 valuation, reviewed in 2016/17) for any significant items where possible, or by valuations provided by the Council’s Culture service, which are informed by commercial markets and the estimated replacement costs. Acquisitions are made by purchase or donation. Purchases are initially recognised at cost and donations are recognised at valuation with reference to appropriate commercial markets.
- **Buildings:** Buildings that are preserved for future generations due to their historical and cultural nature and have therefore been reclassified by the valuer from Property, Plant and Equipment.

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

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

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

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

**Note information:** The Council has identified 392 heritage assets, held to increase the knowledge, understanding of the Council’s history and local area. These have been split into the following categories:

- **Civic regalia:** the collection includes a number of artefacts such as the Mayoral chains, the Mace and various items of silverware.
- **Museum collections:** the museum collections include paintings (both oil and watercolour), sculptures and other artefacts and are managed by Tyne and Wear Archives and Museum on behalf of the Council. The collection

includes two paintings by Hans Schäufelein on display at the Shipley Art Gallery<sup>16</sup>; a full list of exhibition listings and the Tyne and Wear Museums' access policy is available on their website.

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

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

	Public artwork £000s	Civic regalia £000s	Buildings £000s	Museum collections £000s	Total £000s
<b>Cost or Valuation 2017/18:</b>					
1 April 2017	7,256	379	956	14,352	22,943
Reclassified from PPE	0	0	0	0	0
Additions	0	0	0	0	0
Donations	0	0	0	46	46
Disposals	0	0	0	0	0
Upward Revaluations	3,696	0	0	18	3,714
<b>31 March 2018</b>	<b>10,952</b>	<b>379</b>	<b>956</b>	<b>14,416</b>	<b>26,703</b>
<b>Cost or Valuation 2018/19:</b>					
1 April 2018	10,952	379	956	14,416	26,703
Reclassified from PPE	0	0	0	0	0
Additions	0	0	0	0	0
Donations	0	0	0	225	225
Disposals	0	0	0	0	0
Upward Revaluations	128	0	0	0	128
<b>31 March 2019</b>	<b>11,080</b>	<b>379</b>	<b>956</b>	<b>14,641</b>	<b>27,056</b>

## 19. Capital commitments and capital financing

### Redemption of debt: accounting policy

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

### Capital commitments

At 31 March 2019 the Council had £11.4m of contractual commitments for the construction or enhancement of property, plant and equipment £9.3m in 2017/18). These relate to the following schemes:

- |  |        |
|--|--------|
| • Investment in MetroGreen   | £0.3m  |
| • Investment in Riga   | £10.9m |
| • Investment in 3G Pitch Facilities at Gateshead International Stadium | £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):

<sup>16</sup> See <http://www.twmuseums.org.uk/shipley-art-gallery.html>

<sup>17</sup> See <http://www.legislation.gov.uk/ukpga/2003/26/contents>

2017/18 £000s		2018/19 £000s
714,606	<b>Opening capital financing requirement</b>	730,383
	<b>Capital investment</b>	
67,192	Property, plant and equipment	65,051
0	Heritage assets	51
0	Investment properties	0
802	Intangible assets	1,130
125	Assets held for sale	107
3,363	Revenue expenditure funded from capital under statute	18,110
3,300	Long-term debtors relating to capital transactions	5,239
0	Acquisition of PFI assets	0
	<b>Sources of finance</b>	
(8,102)	Capital receipts	(7,255)
(36,032)	Government grants and other contributions	(43,443)
	Sums set aside from revenue:	
(1,207)	Direct revenue contributions	(944)
(13,665)	MRP/loans fund principal	(14,803)
<b>730,383</b>	<b>Closing capital financing requirement</b>	<b>753,626</b>
	<b>Explanation of movements in year:</b>	
(2,547)	Increase/(decrease) in underlying need to borrowing (supported by government financial assistance)	(2,547)
21,346	Increase in underlying need to borrowing (unsupported by government financial assistance)	28,910
(3,022)	Assets acquired under PFI/PPP contracts	(3,120)
<b>15,777</b>	<b>Increase/(decrease) in capital financing requirement</b>	<b>23,243</b>

## 20. Public finance initiative (PFI) arrangements

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

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

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

### PFI Schemes in place

#### Schools PFI

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

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

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

### Waste PFI

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

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

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

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

#### a) Analysis of movements in PFI asset values

31/03/18 £000s			31/03/19 £000s	
Schools	Waste		Schools	Waste
23,613	50,516	<b>Opening values</b>	24,398	48,135
3	0	Additions	30	0
0	0	Disposals	0	0
433	0	Downward revaluations	0	0
969	0	Upward revaluations	0	0
(620)	(2,381)	Depreciation	(621)	(2,381)
<b>24,398</b>	<b>48,135</b>	<b>Closing values</b>	<b>23,807</b>	<b>45,754</b>

#### b) Analysis of movements in PFI liabilities

The following transactions were processed during 2018/19:

31/03/18 £000s			31/03/19 £000s	
Schools	Waste		Schools	Waste
1,480	4,446	Services	1,449	4,688
0	663	Lifecycle	0	677
795	2,227	Capital repayment	848	2,273
1,570	898	Interest	1,517	852
756	206	Contingent rent	825	276
<b>4,601</b>	<b>8,440</b>	<b>Total payment</b>	<b>4,639</b>	<b>8,766</b>
(5,057)	(1,805)	PFI grant receivable (excluding academy schools)	(5,057)	(1,805)
2,167	0	Grant attributable to academy / diocesan schools	2,167	0
<b>1,711</b>	<b>6,635</b>	<b>Net payment</b>	<b>1,749</b>	<b>6,961</b>

Contingent rents included above relate to contractual clauses for general inflation<sup>18</sup>.

<sup>18</sup> The Schools PFI contract is inflated annually by RPIX, the UK price index excluding mortgage payments

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

31/03/18 £000s			31/03/19 £000s	
Schools	Waste		Schools	Waste
(23,707)	(43,627)	Opening values	(22,912)	(41,400)
0	0	Additions	0	0
795	2,227	Repayment of capital	848	2,273
<b>(22,912)</b>	<b>(41,400)</b>	<b>Closing values</b>	<b>(22,064)</b>	<b>(39,127)</b>

c) Analysis of unitary charge payments outstanding

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

	Repayment of liability		Interest payment		Service charges		Total £000s
	Schools £000s	Waste £000s	Schools £000s	Waste £000s	Schools £000s	Waste £000s	
– within 1 year	904	1,659	1,461	805	2,314	4,731	<b>11,874</b>
– between 1 and 5 years	4,255	7,868	5,205	2,832	9,672	18,147	<b>47,979</b>
– between 5 and 10 years	7,109	8,750	4,716	2,687	13,108	24,724	<b>61,094</b>
– between 10 and 15 years	9,796	9,584	2,029	1,738	12,143	25,083	<b>60,373</b>
– between 15 and 20 years	0	11,266	0	724	0	24,706	<b>36,696</b>
– between 20 and 25 years	0	0	0	0	0	0	<b>0</b>
	<b>22,064</b>	<b>39,127</b>	<b>13,411</b>	<b>8,786</b>	<b>37,237</b>	<b>97,391</b>	<b>218,016</b>

d) Significant contractual information

**Significant terms of the arrangement**

**Schools**

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

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

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

**Waste**

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

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

**Rights to use specified assets**

**Schools**

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

**Waste**

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

### **Rights to expect provision of services**

#### **Schools**

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

#### **Waste**

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

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

#### **Schools**

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

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

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

#### **Waste**

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

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

### **Renewal and termination options**

#### **Schools**

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

#### **Waste**

The contract includes an option to extend for a period of 5 years beyond the contractual expiry date. It allows the Council to terminate the contract with 20 business days' notice or either party to terminate on the other party's default or in the event of force majeure (for example: war, strike, riot, natural disaster). There are provisions within the contract allowing for compensation to be paid by the defaulting party to the other in the event of termination.

### **Other rights and obligations**

#### **Schools**

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

## **21. Cash and cash equivalents**

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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:

31/03/18 £000s			31/03/19 £000s	
45		Cash held by the Council	46	
(6,082)		Bank overdraft	(14,163)	
11,231		Short-term deposits	8,918	
<b>5,194</b>		<b>Total cash and cash equivalents</b>	<b>(5,199)</b>	
4,886		Cash - TGHC	6,664	
0		Intra-group cash to be excluded	0	
<b>10,080</b>		<b>Group cash and cash equivalents</b>	<b>1,465</b>	

## 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 2018 £000s				31 March 2019 £000s		
< 1 year	> 1 year			< 1 year	> 1 year	
11,184	0	Central government bodies		7,653	0	
12,632	0	NHS bodies		8,402	0	
5,954	0	Other local authorities		14,720	0	
215	0	Other public bodies		260	0	
30,560	22,466	Bodies external to general government		38,090	27,121	
<b>60,545</b>	<b>22,466</b>			<b>69,125</b>	<b>27,121</b>	
2,120	0	Debtors - TGHC		1,581	0	
(3,111)	0	Intra-group debtors to be excluded		(2,411)	0	
<b>59,554</b>	<b>22,466</b>	<b>Group total</b>		<b>68,295</b>	<b>27,121</b>	

The debtors' balance represents the amount due to the Council from customers or grants outstanding from funding bodies. A bad debt provision of £12.360m is held within the *bodies external to general government* category above to provide against the risk of default on debt outstanding from trade, or non-government, debtors (2017/18: £12.210m).

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

The provision for debt in relation to Council Tax as at 31 March 2019 was estimated as £1.602m (2017/18: £2.067m) whilst the provision for bad debt in relation to business rates was estimated as £0.735m (2017/18: £0.735m). Please note these represent the Council's share of the provision for bad debt as the preceptor shares are allocated in proportion to their share.

## 23. Creditors

These amounts represent sums owed to a number of sources, such as other local authorities and government departments. It also includes income received in advance, such as council tax relating to 2019/20:

31 March 2018 £000s				31 March 2019 £000s		
< 1 year	> 1 year			< 1 year	> 1 year	
(14,346)	(375)	Central government bodies		(13,479)	(86)	
(669)	0	NHS bodies		(1,555)	0	
(6,400)	0	Other local authorities		(7,342)	0	
(16)	0	Other public bodies		(13)	0	
(29,290)	(63,193)	Bodies external to general government		(33,689)	(60,590)	
<b>(50,721)</b>	<b>(63,568)</b>			<b>(56,078)</b>	<b>(60,676)</b>	
(8,228)	0	Creditors - TGHC		(9,247)	0	
3,111	0	Intra-group creditors to be excluded		2,411	0	
<b>(55,838)</b>	<b>(63,568)</b>	<b>Group total</b>		<b>(62,914)</b>	<b>(60,676)</b>	

## 24. Provision, contingent liabilities and contingent assets

**Provisions**

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

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

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

Where some or all of the payment required to settle a provision is expected to be recovered from another party (for example: from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation. Movements in provisions during 2018/19 were as follows:

Balance 31/03/18		Receipts	Payments	New provision	Reversals	Balance 31/03/19
(2,472)	Business rate appeals - provision for refunds following successful appeals	0	1,340	(1,340)	0	(2,472)
(3,514)	Future redundancies - provision for costs associated with known redundancies	0	2,704	(595)	0	(1,405)
<b>(5,986)</b>	<b>Short-term provisions</b>	<b>0</b>	<b>4,044</b>	<b>(1,935)</b>	<b>0</b>	<b>(3,877)</b>
(6,307)	Insurance - provision for costs associated with future insurance claims against the Council	(1,369)	1,369	(2,536)	2,137	(6,706)
<b>(6,307)</b>	<b>Long-term provisions</b>	<b>(1,369)</b>	<b>1,369</b>	<b>(2,536)</b>	<b>2,137</b>	<b>(6,706)</b>
<b>(12,293)</b>	<b>Total provisions</b>	<b>(1,369)</b>	<b>5,413</b>	<b>(4,471)</b>	<b>2,137</b>	<b>(10,583)</b>

Closing provisions include the following elements:

**Business Rates Appeals:** Due to the localisation of Business Rates, which became effective from 1 April 2013, the Council has set aside a provision for any potential liabilities as a result of Business Rate payers' appeals against rateable valuations. The estimate has been calculated by applying historic trend analysis to open appeals lodged with the Valuation Office Agency (VOA) relating to the 2010 list, and historic estimates for likely appeals raised relating to the 2017 list. It is expected that the majority of appeals for the 2005 / 2010 list will be settled by the VOA towards the end of 2019. However, the Council cannot be certain as to when the lodged appeals will be resolved because the timing of resettlement depends on the VOA.

**Future Redundancies:** Redundancy costs have been provided for estimated staffing savings required as set out in the Medium Term Financial Strategy for 2019/20 and 2020/21.

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

Apart from the Business Rates Appeals provision, all other provisions are expected to be used within the next two years.

**Contingent liabilities**

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. They also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet, with disclosure in this note only. The Council has assessed items which could create a contingent liability, and none have been identified.

**Contingent assets**

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence of otherwise uncertain future events not wholly within the control of the

Council. Contingent assets are not recognised in the Balance Sheet, with disclosure in this note only. The Council's significant assets are as follows:

**VAT recovery claim:** Following a recent ruling by the Court of Justice of the European Union (CJEU) in relation to VAT on sports services, a VAT recovery claim has been prepared and will be submitted to HMRC. There is a degree of uncertainty regarding the outcome of this claim however the Council recognises a contingent asset for the potential recoveries receivable.

## 25. Employee benefits

### Gateshead Council:

#### **Post-employment benefits (pensions)**

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

##### **a. Defined contribution plan: Teachers' Pension Scheme**

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

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

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

In 2018/19, the Council paid £5.712m to the TPA in respect of teachers' retirement benefits, representing 16.4% (plus a 0.08% levy) of pensionable pay (the figures for 2017/18 were £6.133m and 16.4% plus a 0.08% levy with an employer cost cap of 10.9%). In addition, the Council is responsible for all pension payments relating to added years it has awarded, together with related increases. In 2018/19, these amounted to £3.549m, representing 8.2% of pensionable pay (£3.514m and 7.4% in 2017/18). The contributions due to be paid in the next financial year are estimated to be of a similar value. The Council is not liable to the scheme for any other entities' obligations under the plan.

##### **b. Defined benefit plan: Tyne and Wear Pension Fund**

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

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

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

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

<sup>19</sup> See [www.teacherspensions.co.uk/](http://www.teacherspensions.co.uk/)

<sup>20</sup> See [www.twpf.info](http://www.twpf.info)

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 2018/19, the Council paid £31.853m (£30.881m in 2017/18) to the Pension Fund in respect of pension contributions, representing 18.2% of pensionable pay (18.2% in 2017/18) and early retirement strain on the fund payments.

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

#### Transactions relating to retirement benefits

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

The following transactions have been made in the Comprehensive Income and Expenditure Statement (CIES) and the General Fund balance via the Movement in Reserves Statement during the year:

Charges to the Comprehensive Income & Expenditure Statement (CIES)				
	Funded liabilities		Unfunded liabilities	
	31/03/18 £m	31/03/19 £m	31/03/18 £m	31/03/19 £m
<b>CIES:</b>				
Cost of Services:				
Current service cost	32.21	33.84	0.00	0.00
Past service cost (including curtailments)	1.94	26.65	0.00	0.00
Settlement cost	(9.87)	0.00	0.00	0.00
Financing and Investment Income and Expenditure:				
Interest on net defined benefit liability/(asset)	10.78	11.85	2.52	2.49
<b>Pension expense charged to Surplus/Deficit on Provision of Services</b>	<b>35.06</b>	<b>72.34</b>	<b>2.52</b>	<b>2.49</b>
Pension expense charged to Other Comprehensive Income and Expenditure:				
Re-measurement of net defined benefit liability:				
- Return on plan assets	(11.98)	(38.96)	0.00	0.00
- Actuarial (gains)/losses due to:				
changes in financial assumptions	25.77	84.94	1.20	3.38
changes in demographic assumptions	0.00	(64.49)	0.00	(3.84)
liability experience	7.04	(4.19)	0.95	0.28
<b>Total amount charged to Other Comprehensive Income and Expenditure</b>	<b>20.83</b>	<b>(22.70)</b>	<b>2.15</b>	<b>(0.18)</b>
<b>Total amount recognised charged to the CIES</b>	<b>55.89</b>	<b>49.64</b>	<b>4.67</b>	<b>2.31</b>

The total amount charged to *Other Comprehensive Income and Expenditure* (funded and unfunded) totalled £22.88m as disclosed in the Comprehensive Income and Expenditure Statement; the cumulative actuarial loss recognised to 31 March 2019 was £388.59m (2017/18: £22.98m in-year loss and £421.84m cumulative loss).

Movement in Reserves Charges				
	Funded liabilities		Unfunded liabilities	
	31/03/18 £m	31/03/19 £m	31/03/18 £m	31/03/19 £m
<b>Movement in Reserves Statement</b>				
Net charges made for retirement benefits in accordance with the Code	15.12	42.78	(2.15)	(2.98)
<b>Actual amount charged against the General Fund for pensions in the year</b>				
Employer contributions payable to the scheme	28.98	29.56		
Retirement benefits payable to pensioners			5.51	5.47

Assets and liabilities in relation to retirement benefits:

Reconciliation of the present value of Fund liabilities (defined benefit obligation)				
	Funded liabilities		Unfunded liabilities	
	2017/18 £m	2018/19 £m	2017/18 £m	2018/19 £m
<b>Opening defined benefit obligation at 1 April</b>	<b>1,480.80</b>	<b>1,523.45</b>	<b>99.49</b>	<b>98.65</b>
Current service cost	32.21	33.84	0.00	0.00
Interest expense on defined benefit obligation	37.38	39.12	2.52	2.49
Contributions from employees (Fund participants)	6.12	6.30	0.00	0.00
Re-measurement (gains) and losses:				
- Actuarial (gains)/losses on liabilities:				
financial assumptions	25.77	84.94	1.20	3.38
demographic assumptions	0.00	(64.49)	0.00	(3.84)
experience	7.04	(4.19)	0.95	0.28
Net decrease in liabilities from disposals (TGHC)	(25.21)	0.00	0.00	0.00
Net benefits paid out	(42.60)	(44.91)	(5.51)	(5.47)
Past service cost (including curtailments)	1.94	26.65	0.00	0.00
Settlements (liabilities extinguished)	0.00	0.00	0.00	0.00
<b>Closing defined benefit obligation at 31 March</b>	<b>1,523.45</b>	<b>1,600.71</b>	<b>98.65</b>	<b>95.49</b>

Reconciliation of fair value of the scheme assets:

Reconciliation of the movements in the fair value of Fund assets				
	Funded liabilities		Unfunded liabilities	
	2017/18 £m	2018/19 £m	2017/18 £m	2018/19 £m
<b>Opening fair value of Fund assets</b>	<b>1,037.52</b>	<b>1,053.25</b>	<b>0.00</b>	<b>0.00</b>
Interest income on assets	26.60	27.27	0.00	0.00
Re-measurement gains and (losses) on assets	11.98	38.96	0.00	0.00
Employer contributions	28.97	29.56	5.51	5.47
Employee contributions	6.12	6.30	0.00	0.00
Net benefits paid out	(42.60)	(44.91)	(5.51)	(5.47)
Net increase in assets from disposals/acquisitions	(15.34)	0.00	0.00	0.00
Settlements	0.00	0.00	0.00	0.00
<b>Closing fair value of Fund assets</b>	<b>1,053.25</b>	<b>1,110.43</b>	<b>0.00</b>	<b>0.00</b>

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

	2017/18 £m	2018/19 £m
Interest income on assets	26.60	27.27
Re-measurement gain / (loss) on assets	11.98	38.96
<b>Actual return on assets</b>	<b>38.58</b>	<b>66.23</b>

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

	31/03/18	31/03/19		
	Total	Quoted	Unquoted	Total
Equity investments	66.9%	58.0%	7.0%	65.0%
Property	9.2%	0.0%	8.8%	8.8%
Government bonds	3.9%	4.1%	0.0%	4.1%
Corporate bonds	11.5%	11.7%	0.0%	11.7%
Cash	2.6%	2.7%	0.0%	2.7%
Other assets	5.9%	3.5%	4.2%	7.7%
	<b>100.0%</b>	<b>80.0%</b>	<b>20.0%</b>	<b>100.0%</b>

### 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:

	2017/18 £m	2018/19 £m
<b>Funded:</b>		
Fair value of Fund assets	1,053.25	1,110.43
Present value of the unfunded defined benefit obligation - Council	(1,523.45)	(1,600.71)
	(470.20)	(490.28)
<b>Unfunded:</b>		
Present value of the unfunded defined benefit obligation - Council	(98.65)	(95.49)
<b>Asset / (liability) recognised on Balance Sheet</b>	<b>(568.85)</b>	<b>(585.77)</b>

### 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 2020 are estimated to be £28.94m. In addition, strain on the fund contributions may be required. It is also expected that the Council will pay £5.60m directly to beneficiaries (unfunded and teachers).

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

- Active members 36%
- Deferred members 12%
- Pensioners and dependants 52%

### Actuarial assumptions

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of pensions payable in future years; it is dependent on assumptions such as mortality rates and salary levels. Aon, an independent firm of actuaries, has valued the Fund's assets and liabilities in accordance with IAS 19 based upon the latest actuarial valuation of the Fund (funded benefits) as at 31 March 2016 (unfunded benefits: 31 March 2019).

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 2019

	Funded Liabilities		Unfunded Liabilities	
	2017/18	2018/19	2017/18	2018/19
<b>Financial assumptions (% per annum)</b>				
Discount rate for Fund liabilities	2.6%	2.4%	2.6%	2.4%
Rate of inflation - RPI	3.2%	3.3%	3.2%	3.3%
Rate of inflation - CPI	2.1%	2.2%	2.1%	2.2%
Rate of increase to pensions in payment	2.1%	2.2%	2.1%	2.2%
Rate of increase to deferred pensions	2.1%	2.2%	N/A	N/A
Rate of general increase in salaries	3.6%	3.7%	N/A	N/A
<b>Mortality assumptions (years)</b>				
<i>Longevity at 65 for current pensioners:</i>				
Men	22.9	22.2	22.9	22.2
Women	26.4	25.3	26.4	25.3
<i>Longevity at 65 for future pensioners (currently aged 45):</i>				
Men	25.1	23.9	N/A	N/A
Women	28.7	27.2	N/A	N/A
<b>Commutation</b>	2018/19 and 2017/18: Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 75% of the permitted maximum.			

Group position:**Transactions relating to retirement benefits**

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

<b>Charges to the Comprehensive Income &amp; Expenditure Statement (CIES)</b>		
	<b>Group Total</b>	
	<b>31/03/18</b>	<b>31/03/19</b>
	<b>£m</b>	<b>£m</b>
<b>CIES:</b>		
Cost of Services:		
Current service cost	38.18	40.00
Past service cost (including curtailments)	1.97	31.21
Settlement cost	(9.87)	0.00
Financing and Investment Income and Expenditure:		
Interest on net defined benefit liability/(asset)	14.17	15.38
<b>Pension expense charged to Surplus/Deficit on Provision of Services</b>	<b>44.45</b>	<b>86.59</b>
Pension expense charged to Other Comprehensive Income and Expenditure:		
Re-measurement of net defined benefit liability:		
- Return on plan assets	(12.85)	(44.85)
- Total Actuarial (gains)/losses	35.18	17.22
Net decrease in liabilities from disposals (TGHC)		
<b>Total amount charged to Other Comprehensive Income and Expenditure</b>	<b>22.33</b>	<b>(27.63)</b>
<b>Total amount recognised charged to the CIES</b>	<b>66.78</b>	<b>58.96</b>

The total amount charged to *Other Comprehensive Income and Expenditure* (funded and unfunded) totaled £58.96m (2017/18: £66.78m).

**Assets and liabilities in relation to retirement benefits**

<b>Reconciliation of the present value of Fund liabilities (defined benefit obligation)</b>		
	<b>Group Total</b>	
	<b>2017/18</b>	<b>2018/19</b>
	<b>£m</b>	<b>£m</b>
<b>Opening defined benefit obligation at 1 April</b>	<b>1,647.74</b>	<b>1,755.88</b>
Current service cost	38.18	40.00
Interest expense on defined benefit obligation	43.15	45.32
Contributions from employees (Fund participants)	7.28	7.51
Re-measurement (gains) and losses:		
- Total actuarial (gains)/losses on liabilities	35.18	17.22
Net decrease in liabilities from disposals (TGHC)	(25.21)	0.00
Net benefits paid out	(50.57)	(53.19)
Past service cost (including curtailments)	1.97	31.21
Settlements (liabilities extinguished)	58.16	9.67
<b>Closing defined benefit obligation at 31 March</b>	<b>1,755.88</b>	<b>1,853.62</b>

Reconciliation of fair value of the scheme assets:

Reconciliation of the movements in the fair value of Fund assets		
	Group Total	
	2017/18 £m	2018/19 £m
<b>Opening fair value of Fund assets</b>	<b>1,089.03</b>	<b>1,148.94</b>
Interest income on assets	28.98	29.94
Re-measurement gains and (losses) on assets	12.85	44.85
Employer contributions	37.80	38.74
Employee contributions	7.28	7.51
Net benefits paid out	(50.57)	(53.19)
Net increase in assets from disposals/acquisitions	23.57	5.81
Settlements	0.00	0.00
<b>Closing fair value of Fund assets</b>	<b>1,148.94</b>	<b>1,222.60</b>

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

	2017/18 £m	2018/19 £m
Interest income on assets	28.98	29.94
Re-measurement gain / (loss) on assets	12.85	44.85
Actual return on assets	<b>41.83</b>	<b>74.79</b>

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

	31/03/18 Group Total	31/03/19 Group Total
Equity investments	67.0%	65.0%
Property	8.5%	8.8%
Government bonds	4.0%	4.1%
Corporate bonds	11.7%	11.7%
Cash	3.7%	2.7%
Other assets	5.1%	7.7%
	<b>100.0%</b>	<b>100.0%</b>

### Scheme history of gains and losses

	2017/18 £m	2018/19 £m
<b>Funded:</b>		
Fair value of Fund assets	1,148.94	1,222.60
Present value of the unfunded defined benefit obligation	(1,657.23)	(1,758.13)
	(508.29)	(535.53)
<b>Unfunded:</b>		
Present value of the unfunded defined benefit obligation	(98.65)	(95.49)
<b>Asset / (liability) recognised on Balance Sheet</b>	<b>(606.94)</b>	<b>(631.02)</b>

### Expected future contributions

The expected contributions to be made to the Tyne and Wear Pension Fund by the Group for the accounting period to 31 March 2020 are estimated to be £32.35m. In addition, strain on the fund contributions may be required. It is also expected that the Council will pay £5.60m directly to beneficiaries (unfunded and teachers).

The weighted average duration of the defined benefit obligation is 18.7 years (18.7 years in 2017/18). The split of the defined benefit obligation at the last valuation date between the various categories of was as follows:

	Gateshead Council	TGHC
Active Members	36%	52%
Deferred Pensioners	12%	11%
Pensioners	52%	37%

## Actuarial assumptions

	Group Total	
	2017/18	2018/19
<b>Financial assumptions (% per annum)</b>		
Discount rate for Fund liabilities	2.6%	2.4%
Rate of inflation - RPI	3.2%	3.3%
Rate of inflation - CPI	2.1%	2.2%
Rate of increase to pensions in payment	2.1%	2.2%
Rate of increase to deferred pensions	2.1%	2.2%
Rate of general increase in salaries	3.6%	3.7%
<b>Mortality assumptions (years)</b>		
<i>Longevity at 65 for current pensioners:</i>		
Men	22.9	22.2
Women	25.4	25.3
<i>Longevity at 65 for future pensioners (currently aged 45):</i>		
Men	25.1	23.9
Women	28.7	27.2
<b>Commutation</b>		
2018/19 and 2017/18: Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 75% of the permitted maximum.		

## Sensitivity analysis

The results reported for employee benefits are sensitive to the assumptions used. The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2019 and the projected service cost for the year ending 31 March 2020 is set out below:

	+0.1%	-0.1%	+0.1%	-0.1%
	Council	Council	TGHC	TGHC
<b>Funded LGPS benefits</b>				
<b>Discount rate assumption:</b>				
<b>Adjustment to discount rate</b>				
Present value of total obligation (£m)	1,571.07	1,630.91	153.83	161.10
% change in present value of total obligation	-1.9%	1.9%	-2.3%	2.3%
Projected service cost (£m)	34.82	37.01	6.2	6.6
Approximate % change in projected service cost	-3.0%	3.1%	-3.0%	3.1%
<b>Rate of general increase in salaries:</b>				
<b>Adjustment to salary rate increase</b>				
Present value of total obligation (£m)	1608.24	1,593.26	158.89	155.97
% change in present value of total obligation	0.5%	-0.5%	0.9%	-0.9%
Projected service cost (£m)	35.91	35.91	6.4	6.4
Approximate % change in projected service cost	0.0%	0.0%	0.0%	0.0%
<b>Rate of increase to pensions in payment and deferred pensions assumption and rate of revaluation of pension accounts:</b>				
<b>Adjustment to pension increase rate</b>				
Present value of total obligation (£m)	1,623.31	1,578.46	159.61	155.26
% change in present value of total obligation	1.4%	-1.4%	1.4%	-1.4%
Projected service cost (£m)	37.01	34.84	6.6	6.2
Approximate % change in projected service cost	3.1%	-3.0%	3.1%	-3.0%
<b>Post retirement mortality assumption:</b>				
<b>Adjustment to mortality age rating assumption*</b>				
Present value of total obligation (£m)	1,651.61	1,550.31	162.28	152.59
% change in present value of total obligation	3.2%	-3.1%	3.1	-3.1%
Projected service cost (£m)	37.27	34.57	6.6	6.2
Approximate % change in projected service cost	3.8%	-3.7%	3.7%	-3.7%
*A rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them.				

### Discretionary benefits

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

## 26. Financial instruments

### a. Accounting policies

#### Financial assets

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

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

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

#### Financial assets Measured at Amortised Cost

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

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

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

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

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

#### Expected Credit Loss Model

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

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

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

The authority has grouped similar loans for assessing loss allowances:

## Part 2: Notes to the Core Financial Statements

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

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

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

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

### Financial Assets Measured at Fair Value through Profit of Loss

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

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

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

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

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

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

The Council has decided to designate its Newcastle Airport equity instrument, previously held as available for sale assets under IAS39, as fair value through other comprehensive income under IFRS9 classifications. This decision protects Council taxpayers from any future movements in the value of these shareholdings until such time as the shares are sold or released. In the Balance Sheet the £11.583m previously held in the available for sale reserve, in respect of Newcastle Airport, has been released and taken to the financial instrument's revaluation reserve.

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

### Changes in Valuation Technique

The fair value for Newcastle Airport has been assessed at 31 March 2019 based on a combination of the discounted cash flow of income method together with the guideline public company method of the market approach to valuations. This represents a change from previous years where the value was based on the last active trading of shares in 2012.

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

### SCAPE

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

### Financial liabilities

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

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the

outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

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

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

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

The annual treasury management strategy which incorporates the prudential indicators was approved by Council on 22 March 2018 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2018/19 was set at £875m. This is the maximum limit of external borrowing or other long-term liabilities.
- The Operational Boundary was expected to be £850m. This is the expected level of debt and other long-term liabilities during the year.
- The maximum and minimum exposures to the maturity structure of debt are shown in the annual treasury management strategy available on the Council website.
- sovereign ratings to select counterparties from only the most creditworthy countries

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

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

## Part 2: Notes to the Core Financial Statements

**Credit risk:** Credit risk arises from deposits with banks, building societies, other local authorities and the government's Debt Management Office<sup>22</sup>, as well as credit exposures to the Council's customers. This risk is minimised through the annual investment strategy, which requires that deposits are not placed with financial institutions that fail to meet the agreed minimum credit criteria. The Council uses the creditworthiness service provided by Link Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard & Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

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

The Council's maximum exposure to credit risk in relation to its investments in financial institutions cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2019 that this was likely to crystallise.

### Amounts arising from Expected Credit Losses

The introduction of IFRS9 requires the Council to carry out an assessment of anticipated credit loss and create an appropriate provision. The value of the calculated provision falls below the Council's materiality threshold and for this reason has not been included in the accounts.

As at 31 March 2019, £25.000m, or 32.3%, of the Council's deposits (31 March 2018: £30.00m or 32.8%) were held with financial institutions domiciled outside the UK:

Country of Domicile	2017/18		2018/19	
	Amount £m	%	Amount £m	%
Singapore	10.000	10.9	10.000	12.9
Canada	5.000	5.5	5.000	6.5
Germany	0.000	0.0	0.000	0.0
Sweden	0.000	0.0	0.000	0.0
Australia	15.000	16.4	10.000	12.9
	<b>30.000</b>	<b>32.8</b>	<b>25.000</b>	<b>32.3</b>

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:

2017/18		2018/19		
Net value £m		Gross value £m	Impairment value £m	Net value £m
91.520	Deposits with financial institutions	77.437	(0.026)	77.411
22.466	Long-term debtors	27.121	0.000	27.121
46.471	Short-term debtors	61.925	(10.024)	51.901

The debtors' balance represents the amount due to the Council from customers (excluding council tax and business rates arrears and amounts owed by HMRC). A bad debt provision of £10.024m (excluding council tax and business rates) is held on the Balance Sheet to provide against the risk of default on debt outstanding (£9.408m in 2017/18). In addition, the Council's Balance Sheet at 31 March 2019 held £50.375m (short-term) and £60.676m (long-term) relating to gross amounts owed for financial liabilities (£50.196m short-term and £63.568m long-term in 2017/18), representing amounts owed to customers (excluding HMRC, council tax and business rates); no impairment was required.

<sup>22</sup> See <http://www.dmo.gov.uk/>

The following table summarises the Council's maximum exposure to credit risk on financial assets. This analysis is

## Part 2: Notes to the Core Financial Statements

based on credit rating advice received by the Council's treasury advisors, Link Asset Services, and focuses on the long-term investment grade rating issued to each financial institution by Fitch. The highest possible rating is AAA and the lowest rating is BBB:

2017/18 £m	Rating	2018/19 £m
26.520	AAA	21.411
0.000	AA	0.000
30.000	AA-	25.000
15.000	A+	23.000
15.000	A	3.000
5.000	A-	5.000
<b>91.520</b>	<b>Total (excluding impaired investments)</b>	<b>77.411</b>

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

The Council has ready access to borrowing from the money markets to cover any day-to-day cash flow need, and the Public Work Loans Board (PWLB) and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992<sup>23</sup>, 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 2019, all of the Council's deposits were due to mature within 364 days except for one £5m investment which matures on 11 September 2020.

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

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

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

### Market risk

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

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

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

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

<sup>23</sup> See <http://www.legislation.gov.uk/ukpga/1992/14/contents>

Interest rate sensitivity analysis		
2017/18 £m		2018/19 £m
0.436	Increase in interest payable on variable rate borrowing	0.110
(0.137)	Increase in interest receivable on variable rate investments	(0.117)
<b>0.299</b>	<b>Impact on the (surplus)/deficit</b>	<b>(0.007)</b>
(0.116)	Decrease in fair value of fixed rate investments	(0.070)
139.719	Decrease in the fair value of fixed rate borrowing	140.986

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

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

**Price risk:** the Council does not generally invest in equity shares or marketable bonds. However, the Council does have shareholdings to the value of £12.477m in Newcastle International Airport and SCAPE. Whilst these holdings are generally illiquid, the Council is exposed to gains or losses arising from movements in the price of shares.

As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. Instead it only acquires shareholding in return for "open book" arrangements with the company concerned so that the Council can monitor factors that may cause a fall in the value of specific shareholdings. The shares have all been classified as Fair Value through Other Comprehensive Income, meaning that all movements in price will impact on gains and losses recognized in the Financial Instruments Revaluation Reserve.

**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 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:

2017/18 £000s		2018/19 £000s
(1,808)	Interest and investment income	(2,321)
26,175	Interest payable and similar charges	40,979
<b>24,367</b>	<b>Total</b>	<b>38,658</b>

**d. Financial instrument balances**

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

	Short-term		Long-term	
	31/3/18 £000s	31/3/19 £000s	31/3/18 £000s	31/3/19 £000s
Financial liabilities at amortised cost	(55,360)	(42,059)	(600,867)	(634,738)
<b>Total borrowing</b>	<b>(55,360)</b>	<b>(42,059)</b>	<b>(600,867)</b>	<b>634,738)</b>
Loans and receivables	87,311	72,619	5,000	5,000
Available for Sale Financial Assets *			12,367	0
Investments at Fair Value through other Comprehensive Income:				
Unquoted equity investments	0	0	0	12,477
<b>Total investments</b>	<b>87,311</b>	<b>72,619</b>	<b>17,367</b>	<b>17,477</b>

\*The Available For Sale Assets balance has been transferred to Fair Value though Other Comprehensive Income in accordance with IFRS9. Please see details of transition below.

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

Available for Sale Financial Instruments Reserve	
<b>2017/18 £000s</b>	
<b>12,367</b>	<b>Balance at 1 April</b>
0	Upward/(downward) revaluation of investments not charged to the (Surplus)/Deficit on the Provision of Services
<b>12,367</b>	<b>Balance at 31 March</b>
	<b>(transferred to Financial Instruments Revaluation Reserve 1 April 2018)</b>

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

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

Financial Instruments Revaluation Reserve	
	<b>2018/19 £000s</b>
<b>Balance at 1 April</b>	0
Balance transferred from Available for Sale Financial Instrument Reserve	12,367
Upward revaluation of investments	110
<b>Balance at 31 March</b>	<b>12,477</b>

Analysis of financial liabilities at amortised cost			
Total outstanding at 31 March 2018 £000s		Interest rates payable	Total outstanding at 31 March 2019 £000s
	<b>Source of loan</b>		
(530,351)	Public Works Loans Board	1.96% - 13.75%	(616,550)
(125,876)	Other loan instruments	0.53% - 4.52%	(60,246)
<b>(656,227)</b>	<b>Total financial liabilities at amortised cost</b>		<b>(676,796)</b>
	An analysis of loan by maturity is:		
<b>(55,360)</b>	<b>Short-term borrowing</b>		<b>(42,058)</b>
(40,829)	Maturing in 1 – 2 years		(50,554)
(111,072)	Maturing in 2 – 5 years		(49,517)
(61,458)	Maturing in 5 – 10 years		(52,159)
(387,508)	Maturing in more than 10 years		(482,508)
<b>(600,867)</b>	<b>Long-term borrowing</b>		<b>(634,738)</b>
<b>(656,227)</b>	<b>Total borrowing</b>		<b>(676,796)</b>

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

Except for the financial assets carried at fair value (described under the Fair Value heading above), all other financial liabilities and financial assets are represented by amortised cost and long-term debtors and creditors are carried on the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions: liabilities and financial assets represented by loans and receivables and long term debtors and creditors are carried on the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments (level 2), using the following assumptions:

- For loans from the PWLB payable, new borrowing rates have been applied to provide the fair value under PWLB debt redemption procedures. As the Debt Management Office provides a transparent approach allowing the exit cost to be calculated without undertaking a repayment or transfer it is appropriate to disclose the exit price. As an alternative, we have assessed the cost of taking a new loan at PWLB new loan rates applicable to existing loans on Balance Sheet date (which could be viewed as a proxy for transfer value);
- For non-PWLB loans payable, PWLB prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised; and
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount.

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

by the public sector. Our accounting policy uses new borrowing rates to discount the future cash flows.

The fair value of the total financial liabilities is greater than the carrying amount because the Council's loans portfolio includes a number of fixed rate loans where the interest rate payable is higher than rates available for similar loans in the market at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2019) arising from a commitment to pay interest to lenders above current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £782m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

Fair value of assets and liabilities carried at amortised cost				
	31 March 2018		31 March 2019	
	Carrying amount £000s	Fair value £000s	Carrying amount £000s	Fair value £000s
PWLB debt	(530,352)	(678,677)	(616,550)	(782,353)
Non-PWLB debt	(125,875)	(182,381)	(60,246)	(87,375)
<b>Total financial liabilities</b>	<b>(656,227)</b>	<b>(861,058)</b>	<b>(676,796)</b>	<b>(869,728)</b>
Market loans < 1 year	71,194	71,194	63,701	63,701
Market loans > 1 year	5,000	4,995	5,000	4,998
<b>Total financial assets</b>	<b>76,194</b>	<b>76,189</b>	<b>68,701</b>	<b>68,699</b>

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

	Principal £000s	Impairment £000s	Accrued interest £000s	Total £000s
<b>Short term investments 2018/19:</b>				
Fixed-term deposits	63,500	0	201	63,701
Impaired investment	26	(26)	0	0
	<b>63,526</b>	<b>(26)</b>	<b>201</b>	<b>63,701</b>
Short term deposits (cash equivalents)	8,911	0	7	8,918
<b>Total</b>	<b>72,437</b>	<b>(26)</b>	<b>208</b>	<b>72,619</b>
<b>Short term investments 2017/18:</b>				
Fixed-term deposits	71,000	0	194	71,194
Impaired investment	(26)	26	0	0
	<b>70,974</b>	<b>26</b>	<b>194</b>	<b>71,194</b>
Short term deposits (cash equivalents)	16,117	0	0	16,117
<b>Total</b>	<b>87,091</b>	<b>26</b>	<b>194</b>	<b>87,311</b>

## 27. Authorisation of Accounts for issue

The Council and Group's Statement of Accounts for the financial year ended 31 March 2019 will be approved, once audited, by the Accounts Committee and authorised for issue.

Signed:

Signed:

Date:

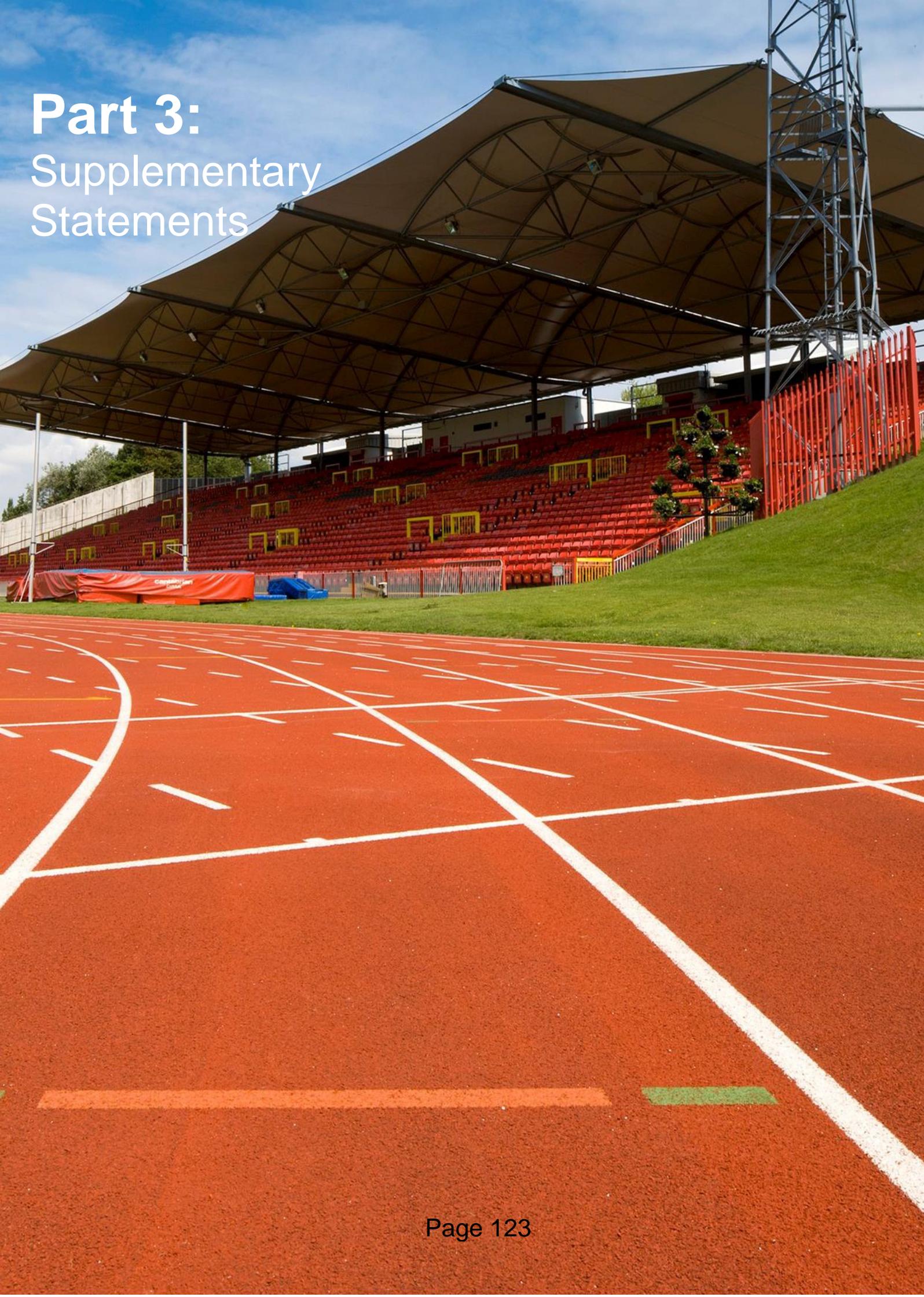
Date:

**Darren Collins**  
Strategic Director, Corporate Resources

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

# Part 3:

## Supplementary Statements



# Housing Revenue Account (HRA)

## HRA Income and Expenditure Statement

2017/18 £000s		2018/19 £000s	Note
	<b>Expenditure:</b>		
19,726	Repairs and maintenance	20,291	
14,946	Supervision and management	14,899	
3,423	Special services	3,529	
3,550	Rents, rates, taxes and other charges	3,773	
17,806	Depreciation and revaluation of non-current assets	28,148	4 & 6
69	Debt management charges	65	
570	Increased provision for bad or doubtful debts	637	
<b>60,090</b>		<b>71,342</b>	
	<b>Income:</b>		
		(72,397)	
(74,141)	Dwelling rents (gross)		
(1,359)	Non-dwelling rents (gross)	(1,346)	
(3,382)	Charges for services and facilities	(3,381)	
(480)	Leaseholders charges for services and facilities	(409)	
(887)	Contributions towards expenditure	(1,327)	
	HRA subsidy receivable		
		<b>(78,860)</b>	
<b>(80,249)</b>			
<b>(20,159)</b>	<b>Net Cost of HRA Services as included in the Council's Comprehensive Income and Expenditure Statement</b>	<b>(7,518)</b>	
575	HRA services' share of Corporate and Democratic Core	295	
<b>(19,584)</b>	<b>Net Income for HRA Services</b>	<b>(7,223)</b>	
	<b>HRA share of the operating income and expenditure included in the Council's Comprehensive Income and Expenditure Statement:</b>		
(401)	(Gain) or loss on sale of HRA non-current assets	(976)	
14,820	Interest payable and similar charges	13,912	
(197)	HRA Interest received and investment income	(334)	
80	Pension interest cost and expected return on pension assets	87	
0	Capital grants and contributions	0	
<b>(5,282)</b>	<b>(Surplus)/Deficit for the year on HRA services</b>	<b>5,466</b>	

## Movement on the HRA Statement

2017/18 £000s		2018/19 £000s	Note
<b>27,359</b>	<b>Balance on the HRA at 1 April 2018</b>	<b>33,954</b>	
5,282	Surplus / (Deficit) for the year on HRA Income and Expenditure Statement	(5,466)	
1,313	Adjustments between accounting basis and funding basis under regulations	3,065	1
6,595	Net increase before transfers to reserves	(2,401)	
<b>6,595</b>	<b>Increase in year on the HRA</b>	<b>(2,401)</b>	
<b>33,954</b>	<b>Balance on the HRA at 31 March 2019</b>	<b>31,553</b>	

## Notes to the HRA

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

2017/18 £000s		2018/19 £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:	
3,817	Revaluation of non-current assets	(13,879)
0	Capital grants and contributions	0
0	Accumulated Absences Account adjustment (IAS19)	0
(418)	Gain/ (loss) on sale of HRA non-current assets	976
156	HRA share of contributions to or from the pensions reserve	(170)
0	Revenue expenditure funded from capital under statute (REFCUS)	0
(2,345)	Capital expenditure funded by the HRA	9,997
(13,989)	Transfer to the Major Repairs Reserve (see Note 7)	(14,269)
13,989	Transfer from the capital adjustment account	14,269
116	Other	0
1,326		(3,076)
	The following relates to entries that have not been credited or debited to the HRA income and expenditure account but are required by statute to be debited to the HRA reserve:	
(13)	Amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	11
<b>1,313</b>	<b>Total adjustments between accounting basis and funding basis under the legislative framework</b>	<b>(3,065)</b>

### 2. Housing stock and Balance Sheet valuation

The number of council dwellings by type and valuation at 31 March 2019 was as follows:

31/03/18	Lettable stock numbers:	31/03/19
11,143	Houses	11,029
4,972	Flats	4,958
3,091	Bungalows	3,091
<b>19,206</b>		<b>19,078</b>
<b>£000s</b>	<b>Values:</b>	<b>£000s</b>
706,237	Council dwellings	703,316
6,136	Other land and buildings	7,300
86	Vehicle, plant, furniture and equipment	47
0	Assets held for sale	0
<b>712,459</b>	<b>Total Balance Sheet value of land, houses and other property in the HRA</b>	<b>710,663</b>

It should be noted that opening values are presented prior to any revaluations carried out during 2018/19 and taking effect from 1 April 2018.

### 3. Vacant possession value

The vacant possession value of the HRA dwellings at 1 April 2018 was £1.54bn. However, the existing use value for social housing (EUUV-SH) at the same date was £0.71bn. The EUUV-SH reflects the valuation for a property if it was sold with sitting tenants paying rents at less than open market rents and tenant's rights including the right to buy.

#### 4. Depreciation

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

2017/18 £000s		2018/19 £000s
13,787	Council dwellings	14,035
163	Other land and buildings	195
39	Vehicles, plant, furniture and equipment	39
<b>13,989</b>	<b>Total</b>	<b>14,269</b>

#### 5. Capital expenditure

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

2017/18 £000s		2018/19 £000s
	<b>Expenditure:</b>	
24,986	Council dwellings	29,026
759	Other land and buildings	2,808
0	Vehicle, plant, furniture and equipment	0
<b>25,745</b>	<b>Total capital expenditure</b>	<b>31,834</b>
	<b>Funded by:</b>	
(51)	Borrowing	0
(6,760)	Capital Receipts Reserve	(4,910)
(2,600)	Capital grants	(2,659)
(2,345)	Direct revenue financing	(9,997)
(13,989)	Major Repairs Reserve	(14,268)
<b>(25,745)</b>	<b>Total funding</b>	<b>(31,834)</b>

#### 6. Revaluations

The Council values its dwellings every year using the Existing Use Value for Social Housing basis. During the financial year, the valuation process resulted in a charge to the HRA of £13.879m relating to the reversal of previous losses (2017/18: a credit of £3.817m), as shown below:

2017/18 £000s		2018/19 £000s
	<b>Revaluation losses recognised in the HRA Income and Expenditure Statement:</b>	
3,369	Council dwellings	13,078
448	Other land and buildings	792
	<b>Impairments recognised in the HRA Income and Expenditure Statement:</b>	
0	Council dwellings	0
0	Other land and buildings	0
<b>3,817</b>	<b>Total</b>	<b>13,879</b>

#### 7. Major Repairs Reserve

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

2017/18 £000s		2018/19 £000s
<b>0</b>	<b>Opening Balance at 1 April</b>	<b>0</b>
(13,989)	Amounts transferred to MRR during the year:	(14,269)
0	Amounts transferred from the MRR during the year	0
13,989	Capital expenditure on land, houses & other property	14,269
<b>0</b>	<b>Closing balance as at 31 March</b>	<b>0</b>

## 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*.

2017/18 £000s		2018/19 £000s
	<b>Credit:</b>	
(197)	Interest on notional cash balance	(334)
(3,817)	Impairments adjustment	13,879
<b>(4,014)</b>		<b>13,545</b>
	<b>Debit:</b>	
14,820	Interest on loans	13,912
13,989	Depreciation	14,269
69	Debt management expenses	65
0	Premiums for early repayment of debt	0
3,817	Revaluation of non-current assets	(13,879)
<b>32,695</b>		<b>14,367</b>
<b>28,681</b>	<b>Total item 8 debit</b>	<b>27,912</b>

# Collection Fund Statement

2017/18 £000s *Restated		2018/19 £000s		
		Business rates	Council tax	TOTAL
	<b>Income</b>			
(93,295)	Income from council tax	0	(98,836)	(98,836)
(87,015)	Income from business rates	(91,770)	0	(91,770)
-	Reconciliation adjustments	0	0	0
<b>(180,310)</b>	<b>Total income</b>	<b>(91,770)</b>	<b>(98,836)</b>	<b>(190,606)</b>
	<b>Expenditure</b>			
	<b>Apportionment of previous year surplus:</b>			
0	Central Government	0	0	0
2,638	Gateshead Council	0	3,029	3,029
131	Tyne and Wear Fire and Rescue Authority	0	146	146
161	Northumbria Police and Crime Commissioner	0	185	185
<b>2,930</b>		<b>0</b>	<b>3,360</b>	<b>3,360</b>
	<b>Precepts, demands and shares:</b>			
41,440	Central Government	39,695	0	39,695
122,922	Gateshead Council	39,385	86,809	126,194
4,782	Tyne and Wear Fire and Rescue Authority	794	4,114	4,908
5,008	Northumbria Police and Crime Commissioner	0	5,678	5,678
3,835	Transitional protection payments payable	1,830	0	1,830
<b>177,987</b>		<b>81,704</b>	<b>96,601</b>	<b>178,305</b>
	<b>Less charges to Collection Fund:</b>			
1,600	Write-off of uncollectable amounts	670	390	1,060
(1,665)	Increase / (decrease) in bad debt provision	0	(500)	(500)
1,665	Increase / (decrease) in provision for appeals	0	0	0
285	Cost of collection	282	0	282
-	Reconciliation adjustments	0	0	0
<b>1,885</b>		<b>952</b>	<b>(110)</b>	<b>842</b>
<b>2,492</b>	<b>(Surplus)/deficit arising during the year</b>	<b>(9,114)</b>	<b>1,015</b>	<b>(8,099)</b>
<b>3,634</b>	<b>(Surplus)/deficit brought forward 1 April</b>	<b>9,638</b>	<b>(3,512)</b>	<b>6,126</b>
<b>6,126</b>	<b>(Surplus)/deficit carried forward 31 March</b>	<b>524</b>	<b>(2,497)</b>	<b>(1,973)</b>
	<b>Attributable to:</b>			
4,819	Central Government	262	0	262
1,575	Gateshead Council	257	(2,244)	(1,987)
(50)	Tyne and Wear Fire and Rescue Authority	5	(106)	(101)
(218)	Northumbria Police and Crime Commissioner	0	(147)	(147)
<b>6,126</b>		<b>524</b>	<b>(2,497)</b>	<b>(1,973)</b>

\* Restated due to amended opening balance due to prior year MHCLG adjustment

## Notes to the Collection Fund Statement

### 1. Business rates

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

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

2017/18		2018/19	
47.9p	Multiplier - rate in the pound	49.3p	
£220.025m	Total non-domestic rateable value	£221.903m	

### 2. Council tax

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

	Proportion of Band D Charge	Number of Properties		Band D Equivalent Properties	
		2017/18	2018/19	2017/18	2018/19
Band A - Up to £40,000 (disabled reductions)	5/9	89	95	49	53
Band A - Up to £40,000	6/9	34,582	34,905	23,055	23,270
Band B - £40,001 to £52,000	7/9	10,102	10,261	7,857	7,981
Band C - £52,001 to £68,000	8/9	13,195	13,337	11,729	11,855
Band D - £68,001 to £88,000	9/9	5,099	5,148	5,099	5,148
Band E - £88,001 to £120,000	11/9	2,099	2,130	2,566	2,603
Band F - £120,001 to £160,000	13/9	762	771	1,101	1,114
Band G - £160,001 to £320,000	15/9	369	356	615	593
Band H - Over £320,000	18/9	17	15	34	30
		<b>66,314</b>	<b>67,018</b>	<b>52,105</b>	<b>52,647</b>

	2017/18	2018/19
Council tax for a band D property	£1,782.36	£1,876.90

# Part 4:

## Accompanying documents



# Annual Governance Statement

## 2018/19

Subject to review and approval by Audit and Standards Committee on 24 June 2019

### Scope of Responsibility

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

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

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework. A copy of the Code is on the Council's website<sup>24</sup>.

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

### The Purpose of the Governance Framework

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

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

The Governance Framework has been in place at the Council for the year ended 31 March 2019 and approval of the Statement of Accounts 2018/19.

### The Governance Framework

The Council continually reviews and improves its Governance Framework and during 2018/19, it has been updated to take account of amendments to some of the references evidencing how the Council demonstrates compliance, and reference has also been made to the Health and Wellbeing Board's remit to recognise the Council's responsibility for Public Health as this covers the wider detriments such as economic, social and environmental issues.

The Council continues to face a number of challenges managing significant budgetary pressures, whilst meeting increasing demand as a consequence of demographic changes and a rapidly changing policy context. It is anticipated that the scale and depth of these changes will continue until at least 2020, so the Council needs to ensure it can adapt with pace and purpose to continue to provide the best possible services to its residents.

### Organisational Structures

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

<sup>24</sup> <https://www.gateshead.gov.uk/article/3696/Local-Code-of-Governance>

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

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

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

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

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

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

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

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

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

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

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

### Review of Effectiveness

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

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

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

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

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

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

The Council's Local Code of Governance is reviewed regularly and was last approved by the Audit and Standards Committee on 28 January 2019. Assurance was sought from Councillors who serviced in the Cabinet during 2018/19, in the form of a self-assessment statement, on the effectiveness of the Council's corporate governance arrangements. A report was presented to the Audit and Standards Committee on 24 June 2019 in which all Members of the Cabinet considered that governance arrangements are effective.

Service Directors have carried out self-assessments of the processes, controls and governance arrangements they have in place to allow them to achieve their service objectives. These included considerations of the effectiveness of internal controls. A report was presented to the Audit and Standards Committee on 24 June 2019 which will conclude that, based on the self-assessments, Service Directors agree that effective controls were in place.

The Chief Internal Auditor reports to the Council's Strategic Director, Corporate Resources, but to ensure independence has direct and unfettered access to the Chief Executive, the Strategic Director, Corporate Services and Governance (Monitoring Officer), and the Chair of the Audit and Standards Committee. A review of the effectiveness of Internal Audit, incorporating the Internal Audit Service and the Audit and Standards Committee, has been undertaken and was reported to the Audit and Standards Committee on 24 June 2019. This included an assessment of compliance with the CIPFA Statement on the Role of the Head of Internal Audit (2010) and compliance with Public Sector Internal Audit Standards. This review concluded that the Council's system of internal audit is considered to be effective, which in turn allows the opinion of the Chief Internal Auditor to be relied upon. CIPFA issued an updated Statement on the Role of the Head of Internal Audit in April 2019, which will be referenced in 2019/20 when evaluating the Council's organisational arrangements for internal audit and considering the extent to which they align with the principles of the updated CIPFA statement.

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 24 June 2019. This opinion is based on 102 audit reviews undertaken during the year which found all systems reviewed to be operating well or satisfactorily, except in 15 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 2018/19 as a result of the work of the Internal Audit Service.

The Council's Chief Internal Auditor is also the Chief Internal Auditor for the Gateshead Housing Company, and on this basis provides an independent opinion on the adequacy of the Company's internal control systems based on the Internal Audit reviews carried out during the year. Based on evidence arising from Internal Audit activity during 2018/19, the opinion of the Chief Internal Auditor which will be reported to the Housing Company's Audit Committee 3 July 2019 is that the Company's internal control systems are considered to be effective. This opinion will form part of the Company's Managing Director's report on the Statement of Internal Control to the Audit Committee on 3 July 2019.

The Annual Risk Management Report was presented to the Audit and Standards Committee on 24 June 2019 which concluded that risk management arrangements are effective.

Regular reports on performance management information and data quality have been considered by Overview and Scrutiny Committees and Cabinet over the course of the year in accordance with the Council's performance management framework. Based on the information provided during the year and internal reviews of data quality, effective controls are in place.

The Council has instigated a review of governance, oversight and monitoring in respect of its housing service provided by The Gateshead Housing Company in response to a Regulatory Notice received from the Regulator of Social Housing in April 2019. An action plan is in place to strengthen Council arrangements for oversight and performance monitoring in this area in 2019/20. No other work undertaken by external bodies or inspectorates during the year identified weaknesses in internal controls or governance arrangements.

Assurance on the effectiveness of the Council's legal and regulatory framework has been provided by the Strategic Director, Corporate Services and Governance, who as Monitoring Officer has a legal duty to ensure the lawfulness and fairness of decision-making within the Council. Compliance with established policies, procedures, laws and regulations is ensured by the requirement in the Constitution to give the Chief Executive, the Monitoring Officer and the Chief Finance Officer the opportunity to comment on every committee report submitted to a decision-making body. No areas of significant non-compliance have occurred during 2018/19.

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

CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

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

Actions taken to improve governance following previous Annual Governance Statement

Governance Issue	Planned Action	Action Taken	Outstanding Matters
Strengthen Council approach to managing the risk of Fraud and Corruption	Delivery of Counter Fraud Communication Strategy and strengthen with awareness training where beneficial	Communication and awareness strategy was developed and delivered to publicise the work of the Corporate Fraud Team, raising awareness of the counter fraud culture and highlighting the Council’s commitment to preventing and reporting fraud and corruption.	None
	Develop Fraud Management System	A fraud management system is in place and will go live once the necessary Data Processing Agreements are agreed with partners.	None
Reviewing Governance arrangements to maximise support for Making Gateshead a Place Where Everyone Thrives	Review of Performance Management Framework in line with the new Thrive agenda	The corporate suite of strategic performance indicators has been reviewed to enable effective monitoring of the Council’s strategic approach “Making Gateshead a Place Where Everyone Thrives”.	None
Ensure the Risk Management Strategy continues to contribute to delivery of the Council’s Strategic objectives	Review and develop risk management arrangements to consider risk appetite and support for Making Gateshead a Place Where Everyone Thrives	Strategic and Operational risks have been and will continue to be reviewed in the context of impact of delivery of objectives contributing to Thrive.	None
		The Council’s Risk Management Policy and Framework references risk appetite (tolerance), which will vary at any point in time and will depend upon a number of variables such as cost, reputation and effects on service delivery. The Council may be prepared to take large risks in some areas and none in others, and the relevant factors are considered to inform decision making.	None

Action Plan for 2019/20

Governance Issue	Planned Action	Responsible Officer
Strengthen Council arrangements for oversight and performance monitoring of The Gateshead Housing Company.	The Council will work with both the Regulator of Social Housing and The Gateshead Housing Company (TGHC) to improve governance, oversight and performance monitoring of TGHC to ensure compliance with relevant Regulations and provide assurance for tenants.	Strategic Director, Corporate Services and Governance
Updated CIPFA Statement on the Role of the Head of Internal Audit	The Council's organisational arrangements for internal audit to be evaluated to consider the extent to which they align with the principles of the updated CIPFA guidance in this area.	Strategic Director, Corporate Resources

Opinion on governance arrangements

Based on the review of the Council's governance arrangements during 2018/19, including the internal control and risk management environments, the opinion is that the Council's governance arrangements continue to be regarded as fit for purpose.

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

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Standards Committee on 24 June 2019 and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

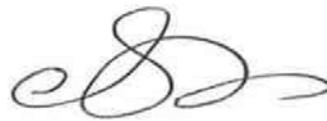
Signed:



Councillor Martin Gannon  
Leader of the Council

Dated 24 June 2019

Signed:



Sheena Ramsey  
Chief Executive

Dated 24 June 2019

# Independent Auditor's Report

## to the Members of Gateshead Council

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*To be added post-audit*

# Glossary of Terms

**Accounting policies** see Note 1.

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

**Accumulated Absences Account** see Note 6b.

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

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

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

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

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

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

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

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

Under Best Value, the Council has a duty to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness". This improvement involves consideration of costs, making the most of money spent, and making sure that services meet the needs of communities and authorities' priorities.

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

**Capital Adjustment Account** see Note 6b.

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

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

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

**Capital Grants Unapplied reserve** see Note 6b.

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

**Capital Receipts Reserve** see *Note 6b*.

**Cash** comprises cash on hand and demand deposits, including uncleared BACS payments and 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 Council has indicated to other parties that it will accept certain responsibilities, and as a result, the Council has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

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

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

**Contingent liabilities** are either:

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

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

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

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

**Creditors** are amounts owed by the Council for goods and services received but where payment has not been made at the end of the financial year (i.e. 31 March). Creditors also include *receipts in advance*, where the Council receives income from external bodies or individuals in advance of service provision (e.g. payment of 2016/17 council tax bill in 2015/16).

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

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

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

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

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

**Deferred Capital Receipts** see *Note 6b*.

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

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

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

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

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

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

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

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

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

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

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

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

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

**Financial Instruments Adjustment Account** see *Note 6b*.

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

**General Fund** see *Note 6b*.

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

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

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

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

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

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

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

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

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

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

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

**Investments** are separated into the following categories:

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

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

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

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

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

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

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

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

**Local Government Pension Scheme (LGPS)** is a nationwide public sector pension schemes for employees working in local government. It is administered locally for participating employers through many regional pension funds. The Tyne and Wear Pension Fund manages the Council's pension assets and liabilities<sup>24</sup>.

**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),

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<sup>24</sup> See <http://www.twpf.info> for further information

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

**Major Repairs Reserve** see Note 6b.

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

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

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

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

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

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

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

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

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

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

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

**Pensions Reserve** see Note 6b.

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

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

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

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

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

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

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

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

- a) A person or a close member of that person's family is related to a reporting entity if that person:
  - (i) has control or joint control over the reporting entity;
  - (ii) has significant influence over the reporting entity; or
  - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions apply:
  - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
  - (iii) Both entities are joint ventures of the same third party;
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
  - (vi) The entity is controlled or jointly controlled by a person identified in (a); or
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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

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

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

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

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

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

**Revaluation Reserve** see Note 6b.

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

## Part 4: Contacts

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# Contacts

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## Primary contacts:

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

## Web links:

Gateshead Council	<a href="http://www.gateshead.gov.uk">www.gateshead.gov.uk</a>
Gateshead Housing Company	<a href="http://www.gatesheadhousing.co.uk">www.gatesheadhousing.co.uk</a>
Tyne and Wear Archives and Museums	<a href="http://www.twmuseums.org.uk">www.twmuseums.org.uk</a>
Newcastle Airport	<a href="http://www.newcastleairport.com">www.newcastleairport.com</a>

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