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Gateshead Council

ACCOUNTS COMMITTEE AGENDA

Thursday, 27 October 2022 at 2.00 pm in the Whickham Room - Civic Centre

From the Chief Executive, Sheena Ramsey

Item	Business
1	**Apologies for Absence**
2	**Minutes** (Pages 3 - 4) The Committee is asked to approve as a correct record the minutes of its last meeting held on 30 September 2021.
3	**Audit Completion Report Year Ended 31 March 2022 and Statement of Accounts 2021/22** (Pages 5 - 162) Report of the Strategic Director, Resources and Digital

Contact: Mike Aynsley email: michaelaynsley@gateshead.gov.uk Tel: 0191 4332128
Date: Wednesday, 19 October 2022

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GATESHEAD METROPOLITAN BOROUGH COUNCIL

ACCOUNTS COMMITTEE MEETING

30 September 2021

PRESENT: Councillor M Gannon (Chair)

Councillors C Donovan and J Wallace

1 MINUTES

The minutes of the last meeting of the Committee held on 2 November 2020 were approved as a correct record and signed by the Chair.

2 AUDIT COMPLETION REPORT YEAR ENDED 31 MARCH 2021 AND GATESHEAD COUNCIL STATEMENT OF ACCOUNTS 2020/21

Consideration has been given to Mazars Audit Completion Report 2020/21, including the Council's arrangements for securing economy, efficiency and effectiveness.

The key messages are:

• Audit Opinion – Mazars anticipate issuing an unqualified opinion, without modification, on the financial statements, including drawing attention to the Valuer's material uncertainty statement on property, plant and equipment (PPE) as a result of COVID-19.

• Identified misstatements – the auditors' work identified a number of misstatements that have been discussed with management. A summary of the identified misstatements has been presented to the Committee.

• Value for Money – Mazars anticipate having no significant weaknesses in arrangements to report in relation to the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources.

• Whole of Government Accounts (WGA) – the timetable for the Council's submission has not yet been published. Audit work will commence once such instructions have been received.

• Wider Powers – the Local Audit and Accountability Act 2014 requires the auditor to give an elector, or any other representative of the elector, the opportunity to question them about the accounting record of the Council and to consider any objection to the accounts. No questions or objections have been received.

The report also includes a Letter of Representation to Mazars to be approved by the Committee prior to being signed by the Strategic Director, Resources

and Digital following the issue of the audit opinion.

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 2020/21 the only material subsidiary was TGHC due to the pension liability.

The Statement of Accounts is materially consistent with the 2020/21 revenue and capital outturn reports considered by Cabinet on 20 July 2021. Along with minor adjustments and presentational changes, the following significant findings and misstatements to the Statement submitted for audit on 30 June 2021 have been identified through the audit process:

The significant findings, internal control recommendations and a summary of misstatements (adjusted and unadjusted) were set out in the executive summary in Mazars Audit Completion Report.

None of the changes to the Statement of Accounts impact on the revenue and capital outturn positions reported to Cabinet, nor do they affect the position of any usable reserves. Management have assessed the identified unadjusted misstatement as not being material, either individually or in aggregate to the financial statements, and does not plan to adjust.

Mazars gave an update at the meeting on issues raised within its Audit Completion Report.

RESOLVED –

(i) That the contents of Mazars Audit Completion Report and the updates given at the meeting be noted.

(ii) That the issue of the Letter of Representation by the Strategic Director, Resources and Digital on behalf of the Council be approved, subject to confirmation of the final position on misstatements.

(iii) That the Council's Statement of Accounts 2020/21 be approved for publication.

(iv) That the Strategic Director, Resources and Digital, following consultation with the Leader of the Council, be given delegated powers to authorise the Statement of Accounts 2020/21 for issue, subject to satisfactory outcome of the outstanding issues and receipt of the audit opinion from Mazars.

Chair……..……..

Gateshead Council

ACCOUNTS COMMITTEE
27 October 2022

TITLE OF REPORT: **Audit Completion Report Year ended 31 March 2022 and Statement of Accounts 2021/22**

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

Purpose of the Report

1. This report requests that the Accounts Committee:

- Note Mazars 2021/22 Audit Completion Report (Appendix 2) and update, including the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources;
- Approve the issue of a Letter of Representation (Appendix 3), subject to confirmation of the final position on misstatements;
- Approve the publication of the Council's 2021/22 Statement of Accounts (Appendix 4); and
- Delegate authority to the Strategic Director, Resources and Digital, following consultation with the Leader, to authorise the Statement of Accounts 2021/22 for issue subject to the satisfactory outcome of the outstanding issues and receipt of the audit opinion from Mazars.

Background

2. The Accounts and Audit (Amendment) Regulations 2021 extended the statutory deadlines for the publication date for final, audited accounts from 31 July to 30 September. The Accounts and Audit (Amendment) Regulations 2022 further extended this deadline from 30 September to 30 November for 2021/22.

3. The annual audit of the Council's Statement of Accounts and use of resources has now been substantially completed for 2021/22 and the Council's external auditor, Mazars, have issued their report, subject to the completion of outstanding work.

4. The Audit Completion Report covers:

- the Council's Statement of Accounts including significant findings, internal control recommendations, and a summary of adjusted and unadjusted misstatements; and

- the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The primary output of Mazars work on the Council's approach to Value for Money is the commentary on those arrangements that form part of the Annual Report. Mazars intend to issue the Annual Report no later than three months after the report on the financial statements is signed.

5. Although Mazars have substantially completed their work, 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.

6. The external auditors report is attached at Appendix 2 and the Council's Statement of Accounts (subject to outstanding work) is attached at Appendix 4. An update position will be presented to the Committee by Mazars. A follow-up letter will be provided, prior to signing the auditor's report.

7. In line with best practice, the Audit and Standards Committee has considered the Audit Completion Report prior to submission to this Committee. Any issues raised by the Audit and Standards Committee will be presented verbally or by separate addendum depending on the nature.

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 the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources , approve the issue of the Letter of Representation, subject to the final position on misstatements and outstanding work, by the Strategic Director, Resources and Digital on behalf of the Council, approve the Council's 2021/22 Statement of Accounts for publication (subject to outstanding work), and delegate authority to the Strategic Director, Resources and Digital, 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, Resources and Digital on behalf of the Council, subject to confirmation of the final position on misstatements and outstanding work;
- approve the Council's 2021/22 Statement of Accounts for publication; and
- Delegate authority to the Strategic Director, Resources and Digital, 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.

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 2021/22 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 the Council's 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. The primary output of Mazars work on the Council's approach to Value for Money is the commentary on those arrangements that form part of the Annual Report. Mazars intend to issue the Annual Report no later than three months after the report on the financial statements is signed.

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 – At the time of issuing the report, and subject to satisfactory conclusion of the remaining audit work, Mazars anticipate issuing an unqualified opinion, without modification, on the financial statements. However, this is subject to the conclusion of matters in relation to infrastructure.
- Identified misstatements – the auditor's work identified a number of misstatements that have been discussed with management. A summary of the identified misstatements is set out in the report. Further work is ongoing in relation to the audit of revised actuarial disclosures, and the accounting treatment following the decision to bring The Gateshead Housing Company back within the Council.
- Value for Money – at the time of issuing the report, Mazars anticipate having no significant weaknesses in arrangements to report in relation to the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources.
- Whole of Government Accounts (WGA) – the timetable for the Council's submission for 2021/22 has not yet been published. Audit work will commence once such instructions have been received.
- Wider Powers – the Local Audit and Accountability Act 2014 requires the auditor to give an elector, or any other representative of the elector, the opportunity to

question them about the accounting record of the Council and to consider any objection to the accounts. No questions or objections have been received.

5. The report also includes a draft Letter of Representation to Mazars (attached as Appendix 3), to be approved by the Committee prior to being signed by the Strategic Director, Resources and Digital following the issue of the audit opinion. Once the outstanding work has been completed, a summary of the final misstatements will be added to the Letter of Representation and a final signed version will be circulated to Accounts Committee members.

6. On 17 November 2020, Cabinet agreed to the integration of the management and maintenance of the Council's housing stock back into the Council with effect from 1 April 2021. This resulted in the cessation in the operation of The Gateshead Housing Company (TGHC) and its governance arrangements. The Council's draft Statement of Accounts submitted for audit on 29 July 2022 accounted for this using the principles of 'merger' accounting. Following internal consultation, Mazars challenged this approach on the basis that TGHC was technically a public sector body, therefore a different form of accounting would apply, namely 'absorption' accounting. The draft accounts prepared for committee are still presented under merger accounting principles, and the work to re-cast the statement under absorption accounting principles is currently on-going. It's important to highlight that this change in accounting approach is presentational in terms of the prior and current year and does not change the net position as at 31 March 2022

7. The 2021/22 Statement of Accounts is shown at Appendix 4. The Statement of Accounts is materially consistent with the 2021/22 revenue and capital outturn reports considered by Cabinet on 21 June 2022. Along with minor adjustments and presentational changes, the following significant findings and misstatements to the Statement submitted for audit on 29 July 2022 have been identified through the audit process. These are outlined in Mazars Audit Completion Report:

   - Significant Findings – section 4;
   - Internal Control Recommendations – section 5; and
   - Summary of misstatements (adjusted and unadjusted) – section 6.

8. None of the changes to the Statement of Accounts impact on the revenue and capital outturn positions reported to Cabinet, nor do they affect the position of any usable reserves. Management have assessed the identified unadjusted misstatement as not being material, either individually or in aggregate to the financial statements, and does not plan to adjust.

9. By 30 November 2022, the Council is required to publish its Audited Statement of Accounts for 2021/22 and place them on its website appropriately signed by the Chair of the Accounts Committee and re-signed by the Strategic Director, Resources and Digital, in line with reporting requirements set out in the Accounts and Audit (Amended) Regulations 2022. If this is not possible due to delays in finalising the outstanding audit items, Accounts Committee Members will be notified, and the Council will issue the required notice on its website to advise stakeholders of the delay.

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**:

    a. **Financial Implications:** the Strategic Director, Resources and Digital confirms that the financial implications are as set out in this report and in the 2021/22 Statement of Accounts. There are no additional financial implications associated with the report.

    b. **Human Resources Implication:** there are no human resources implications arising from this report.

    c. **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 2021/22 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. **Health Implications**: there are no health implications arising from this report.

17. **Climate Emergency and Sustainability Implications**: there are no 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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APPENDIX 2

Audit Completion Report

Gateshead Metropolitan Borough Council
Year ended 31 March 2022

October 2022

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NE8 1HH

Mazars LLP
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
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10 October 2022

Dear Committee Members

Audit Completion Report – year ended 31 March 2022

We are pleased to present our Audit Completion Report for the year ended 31 March 2022. 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 25 April 2022. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate. We noted in our Audit Strategy Memorandum that our risk assessment in respect of our VFM work was not complete; following completion of this risk assessment, we did not identify any significant risks of weaknesses in arrangements.

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 07813 752 053.

Yours faithfully

Cameron Waddell
Partner
Mazars LLP

01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2021/22 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 on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls;
- Net defined benefit liability valuation;
- Valuation of property, plant and equipment; and
- Accounting for Private Finance Initiative (PFI) arrangements (enhanced risk).

Misstatements and internal control recommendations

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements. Section 7 outlines our work on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2022. At the time of preparing this report, matters remaining outstanding as outlined in section 2. We will provide an update to you in relation to the matters outstanding through issuance of a follow-up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:

Audit opinion

We anticipate issuing an unqualified opinion, without modification, on the financial statements, however, this is subject to the conclusion of matters in relation to infrastructure which remain outstanding at the time of issuing this report; further detail is set out in sections 2 and 4.

Value for Money

We anticipate having no significant weaknesses in arrangements to report in relation to the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on our Value for Money work is provided in section 7 of this report.

Whole of Government Accounts (WGA)

We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission for 2021/22. We are unable to commence our work in this area until such instructions have been received.

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. No questions or objectives have been received.

02

Section 02:

Status of the audit

2. Status of the audit

Our work is on-going; there are currently no matters of which we are aware that would require modification of our audit opinion, other than infrastructure, subject to completion of work in the areas detailed below.

Audit area	Status	Description of the outstanding matters
Infrastructure	🔴	We have highlighted to this Committee previously outstanding matters in relation to infrastructure; as a result of these, we have not yet issued our formal certificate for 2020/21. As of early October 2022, issues remain unresolved in relation to the material accuracy of infrastructure balances, impacting on all highways authorities, therefore, we cannot complete our work and give our opinion for 2021/22 until these are resolved. Options being considered include a limitation of scope in our auditor's report.
Net defined benefit liability (pensions)	🟡	Assurance from the Pension Fund auditor.
Property, Plant and Equipment	🟡	Completion of work.
Accounting for TGHC	🟡	Review and consideration of the accounting under 'transfer by absorption'.
Transaction testing	🟡	Various areas of transaction testing remain to be completed.
Other	🟢	Completion of various other work including one remaining outstanding direct confirmation for a Council investment. Evidence also remains outstanding for business rates appeals provisions (classed as an error in this report due to insufficient evidence).
Review procedures	🟡	Review procedures are on-going, namely: - engagement Quality Control Review: required due to the size of the Council; - review of key judgements by the Council in respect of council house valuations (changing from a ward to a postcode basis of grouping assets and in turn valuations) and also judgements in respect of ground leases where the Council is a lessor - review of the final revised accounts by our central technical team.
Closing procedures	🟢	Review of the revised financial statements and consideration of any post balance sheet events.

🔴 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.

03

Section 03:

Audit approach

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in April 2022. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

Our provisional materiality at the planning stage of the audit was set at £13.693m for the Council using a benchmark of 2% of gross operating expenditure. Our updated assessment of materiality, based on the draft financial statements is £14.211m for the Council, using the same benchmark; we will update this Committee if our final materiality differs significantly upon receipt and review of the revised final financial statements.

Use of experts

Changes to our planned approach since issuing our Audit Strategy Memorandum *are shown in italics below*.

Item of account	Management's expert	Our expert
Defined benefit net liability	AON Hewitt (Actuary)	Report commissioned by the National Audit Office from PwC in respect of actuaries nationally.
Property, Plant and Equipment (PPE)	Jones Lang La Salle Ltd (JLL)	We take into account relevant information available from third parties. *We have also engaged our own internal valuation expert to review specified Council assets, given their size and also the new Valuer the Council has used.*
Shared Waste Private Finance Initiative (PFI) facility	Hilco Appraisal Ltd	No expert assessed as being required.
Financial instrument disclosures	Link Asset Services	No expert assessed as being required.

04

Section 04:

Significant findings

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4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 17 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Management override of controls	
	Description of the risk This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.
	How we addressed this risk We addressed this risk through performing audit work over: • accounting estimates impacting amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Significant risk – management override of controls

Management override of controls - continued	**Audit conclusion**
	We have challenged management in respect of accounting estimate changes relation to council dwelling valuations; see further consideration under the Property, Plant and Equipment significant risk. We identified issues in respect of accounting estimates made for provisions. Our audit work identified a number of errors in relation to provisions, which are based on management's estimates including: • insufficient evidence to support one provision balance (business rates appeals £2.472 million); • insurance provisions made for future events, therefore, do not meet accounting standard requirements (extrapolated error of £4.597 million); and • misclassification of provisions between current and non-current provisions (Term Time Only Pay provision of £2.340 million). These issues were not, ultimately, material, however, there is scope for improvement in how provisions are identified and calculated, along with the supporting disclosures; an internal control recommendation has been raised in this respect. There are no other significant issues arising from our work that we are required to report to you.

4. Significant findings – significant risk: net defined benefit liability (pensions)

Net defined benefit liability (pensions)

Description of the risk

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.

How we addressed this risk

We:

- critically evaluated the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and
- challenged the reasonableness of the Actuary's assumptions that underpin the relevant entries made in the financial statements, through the use of an expert commissioned by the National Audit Office;
- critically assessed the competency, objectivity and independence of the Actuary;
- liaised with the auditors of the Pension Fund to gain assurance that the overall IAS19 procedures and controls in place at the Pension Fund are operating effectively;
- compared assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office;
- agreed data in the Actuary's valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council's financial statements; and
- critically reviewed the accounting for The Gateshead Housing Company's pensions liability which has been brought back in house from 1 April 2021.

Audit conclusion

We discussed with management the material variance between estimated assets used by the Actuary and the actual assets at the year-end based on the draft Pension Fund accounts. It became apparent that due to the timing of the Actuary's report production, that it was not based on the latest valuation data used by the Pension Fund, therefore, the Council requested a revised pensions report. This resulted in a reduction to the net pensions liability, due to increased assets, of £47.110m.

We critically reviewed the pensions disclosures and identified inconsistencies in respect of accounting for The Gateshead Housing Company (TGHC) – the disclosure note did not fully reconcile with the primary statements; this is being addressed in the revised accounts, as part of amendment to how TGHC has been accounted for (see significant risk in this section on TGHC).

Our work is on-going, with the following key areas outstanding:

- receipt and consideration of the assurance from the Pension Fund auditor; and
- our work on the revised Actuary's report is not fully completed.

We will provide an update on outstanding matters to the Committees via our formal follow-up letter, which will include an updated summary of misstatements.

4. Significant findings – significant risk: valuation of property, plant and equipment

Valuation of property, plant and equipment (PPE)	
	Description of the risk The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council's holding of property, plant and equipment (including the Council's PFI shared waste facility). The Council employs valuation experts to provide information on valuations, however, there remains a high degree of estimation uncertainty associated with the (re)valuations of property, plant and equipment (PPE) due to the significant judgements and number of variables involved.
	How we addressed this risk We: • critically assessed the Council's arrangements for ensuring that property, plant and equipment valuations are reasonable and not materially misstated; • critically assessed the basis of valuations, using third party trend data where appropriate, as part of our challenge of the reasonableness of the valuations provided by Valuers, including the PFI shared waste facility; • considered the competence, skills and experience of the Valuers and the instructions issued to the Valuers; • critically reviewed the output from the Council's valuation of the PFI shared waste facility; • substantively tested capital expenditure additions and disposals during the year; • substantively tested the Council's property, plant and equipment to gain assurance that they exist and are owned by the Council; • substantively tested revaluations, including critically reviewing the Council's own consideration of assets not revalued in the year and why they are not materially misstated; and • where necessary, performed further audit procedures on individual assets to ensure the basis of valuations is appropriate.
	Audit conclusion ***Key observations:*** • Council dwellings have increased by approximately 22% or £154 million; this is as a result of the Council (and it's Valuer's) judgement that a change in asset groupings would better represent the council dwellings. • We have used our internal valuation expert to review the most significant valuations which are revalued each year, due to their size. (continued overleaf)

4. Significant findings – significant risk: valuation of property, plant and equipment (continued)

Valuation of property, plant and equipment (PPE) - continued

Audit conclusion (continued)

Challenges to the Council and its Valuer:

- the valuation date of 1 December 2021 and whether there was any evidence of material misstatement for the period 1 December 2021 to 31 March 2022 and also for non-revalued assets;
- the approach to considering the 'modern equivalent' asset in depreciated replacement cost valuations; and
- the significant increase in the valuation of council dwellings.

Overall

We raised a high priority internal control recommendation following our 2020/21 audit, due to the large number of errors identified. Our follow-up of this recommendation is detailed in section 5. In summary, the Council appointed new external Valuers for 2021/22. Sample testing has identified some non-material errors, but significantly less than last year, noting that all assets were revalued last year, whereas only one third were revalued in 2021/22; these are set out in the misstatements section of this report.

Our work is on-going at the time of issuing this report; we will provide an update on outstanding matters to the Committees via our formal follow-up letter, which will include, if required, an updated summary of misstatements.

4. Significant findings – significant risk: accounting for TGHC

Significant risk

Accounting for TGHC coming back in house from 1 April 2021	**Description** The Council's subsidiary, The Gateshead Housing Company (TGHC), was brought back in house from 1 April 2021. The Council will need to consider how to account for this and ensure appropriate disclosures are included in the financial statements.
	How our audit addressed this area of significant risk We: • critically evaluated how the Council has accounted for TGHC being brought back in house from 1 April 2021, considering underlying guidance and accounting standards; • reviewed the Actuary's report to gain assurance that the pensions liabilities of TGHC are appropriately reflected in the Council's financial statements; and • reviewed the accuracy and completeness of any disclosures.
	Audit conclusion The main change from incorporating TGHC is the net pensions liability that has come back on balance sheet of £73.990m as at 31/3/2021. We discussed with management their judgement that merger accounting applied. We challenged this, after internal consultation, on the basis that the housing company was technically a public sector body, therefore, a different form of accounting would apply, namely 'transfer by absorption'. TGHC was established as an Arms-length Management Organisation (ALMO) which is technically classed as a non-financial public corporation. We would highlight that this change does not change the net position as at 31/3/2022, however, impacts upon the presentation of the current and prior year. The draft accounts included partial merger accounting and contained errors which required amending, regardless of whether merger accounting or transfer by absorption was applied; in particular some statements and disclosures had not been updated to account for there no longer being a 'group' and the pensions disclosure note was not internally consistent. We understand the Council plans to change from merger accounting to 'transfer by absorption'. At the time of issuing this report, we have not yet received the revised statements and disclosures.

4. Significant findings – enhanced risk: PFI arrangements

Enhanced risk

Accounting for PFI arrangements	Description
	The Council has two private finance initiative (PFI) arrangements, covering: • schools; and • a shared waste facility. The method of accounting for PFI assets and liabilities is complex, therefore, this increases the risk of misstatement.
	How our audit addressed this area of enhanced risk We: • reviewed the Council's adopted approach for accounting for its PFI arrangements; • reviewed any changes from prior years to the long term financial models used; • critically reviewed the assumptions made by management; and • assessed the completeness and accuracy of disclosures.
	Audit conclusion We obtained the assurance sought, with no significant issues arising, other than an amendment being required to the PFI disclosure note showing the valuation of schools.

4. Significant findings

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the 2021/2022 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances, subject to some amendments.

Draft accounts were received from the Council on 29 July 2022, ahead of the revised statutory deadline of 31 July 2022. The Council should be commended for producing the accounts by the deadline given the significant pressures facing the finance team, in terms of capacity and other work pressures, plus specific additional accounting complexities as a result of The Gateshead Housing Company coming back in house from 1 April 2021. In addition, despite on-going pressures, the finance team has worked very closely with us to ensure the audit was completed.

Given the significant on-going pressures on finance teams, we have raised a constructive recommendation to review quality assurance processes and rationalise working papers, as part of reflecting the changed circumstances and pressures which now exist.

Significant matters discussed with management

- **Infrastructure:** as a reminder, we have highlighted previously to this Committee the outstanding issue in relation to infrastructure balances held by all highway authorities, including this Council.
  This is a national issue, impacting on most councils. The issue relates to likely overstatement of infrastructure balances, due to balances not being sufficiently depreciated, in part due to insufficient historic records of infrastructure expenditure being maintained.
  Due to the above, our certificate on the 2020/21 audit has not yet been issued, with the certificate formally 'closing' the audit.
  We have highlighted previously to this Committee the on-going CIPFA consideration of this issue, as the public sector accountancy body, with consultations earlier this year.
  As of early October 2022, no firm decisions have been arrived at. Consideration is being given to reporting 'limitation of scope' in relation to infrastructure, in order to avoid further delays to audit opinions. Mazars is working with the National Audit Office and liaising with other firms in this respect.

- **Pensions:** we discussed with management the material variance between estimated assets used by the Actuary and the actual assets at the year-end based on the draft Pension Fund accounts. It became apparent that due to the timing of the Actuary's report production, that it was not based on the latest valuation data used by the Pension Fund, therefore, the Council requested a revised pensions report. This resulted in a reduction to the net pensions liability, due to increased assets, of £47.110m. Further details are set out under the significant risk section 4.

- **Accounting for The Gateshead Housing Company (TGHC) coming back in house from 1/4/2021:** we discussed with management their judgement that merger accounting applied. We challenged this, after internal consultation, on the basis that the housing company was technically a public sector body, therefore, a different form of accounting would apply, namely 'transfer by absorption'. At the time of issuing this report, the revised approach has not yet been applied. This does not change the net position as at 31/3/2022, however, impacts upon the presentation of the current and prior year. Further details are set out under the significant risk section 4.

- **Property, Plant and Equipment (PPE) valuations:** we raised a high priority internal control recommendation following our 2020/21 audit, due to the large number of errors identified. Our follow-up of this recommendation is detailed in section 5. In summary, the Council appointed new external Valuers for 2021/22. Sample testing has identified some errors, but significantly less than last year, noting that all assets were revalued last year, whereas only one third were revalued in 2021/22. Further details are set out under the significant risk section 4.

- **Significant increase in Council house valuations**: council dwelling valuations showed an increase of approximately 22% or £154 million. This was in part due to a change in how council houses are grouped; previously they were grouped on a political 'ward' basis and this has now been changed to a postcode basis. Greater management scrutiny and challenge of this increase should have been evidenced along with disclosure of this significant change in the financial statements.

- **Provisions:** a number of errors were identified as a result of audit testing. This is an area where capacity and other work pressures at the Council were evident, with audit work taking much longer than it should have. We have raised a medium priority recommendation in this area.

- **Newcastle Airport shares £11.661m as at 31/3/2022:** one of the Council's in the North East acts on behalf of other Councils with Airport shares – South Tyneside MBC. We understand the latter obtained an external valuation of the Airport shares; however, this cannot yet be shared with us. The Council has based its valuation as at 31/3/2022 on updated EBIDTA estimates (earnings before interest, taxes, depreciation and amortisation). Subject to the amendment required due to a non-material error, we understand that management's estimate does not differ materially to the range estimated by the external expert.

- **Leases:** we have challenged management over their assertions for ground leases where the Council is a lessor and why they are classed as operating versus finance leases.

(continued overleaf)

4. 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.

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 2021/2022 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. No such objections have been raised.

05

Section 05:

Internal control recommendations

5. Internal control recommendations

The purpose of our audit was 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 in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal controls or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal controls 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 in this section, along with follow-up of prior year recommendations. 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 categories set out below:

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

Recommendations raised in 2021/22

- Review of arrangements in place for estimating provisions (medium priority)
- Review of working papers and quality assurance arrangements (medium)
- Amendment to returns submitted by senior officers for purposes of related party disclosures (low)

Follow-up of prior year internal control recommendations

- Property, plant and equipment valuations (high priority)
- Omitted related party transactions and disclosures (medium)
- Debtors – completeness and accuracy (medium)
- Annual Governance Statement – updating the AGS and ensuring appropriate coverage of other entities in which the Council has an interest (medium)
- Retention of evidence for business rates parameters updates (low)

5. Internal control recommendations

Other deficiencies in internal control – Level 2

Description of deficiency – quality assurance arrangements for the accounts

Working papers: over 1,500 working papers were again provided as audit evidence. This is a significant amount of working papers which exceeds those required and can result in wasted time going through working papers to find those that are needed.

A working paper protocol has been in place between the Council and Mazars for some years; whilst a year out of date, it remains relevant and only required working papers should be provided.

In addition, due to time pressures and staff capacity, a number of working papers provided were not the final version. Headers / year references on covering sheets had not been updated on quite a large number of working papers. Some 'blank' working papers and folders are being rolled forward from previous years also. Cash flow statement working papers referenced errors which were not then addressed.

Updating working papers for issues arising: it was noted also that some minor points addressed as part of the 2020/21 audit were issues again in 2021/22, presumably due to amendments being made to the revised accounts last year, but not to the underlying working papers.

Analytical review: there were insufficient analytical review procedures undertaken on all of the primary statements which should be a key part of the Council's own quality assurance procedures before the draft accounts are authorised for issue.

Potential effects
Inadequate quality assurance processes can lead to misstatements not being identified. Impacts on the efficiency of the audit.

Recommendation
Rationalise working papers and only provide those required.
Delete blank working papers.
Ensure analytical review procedures are undertaken prior to the draft accounts being authorised for issue.
Ensure that underlying working papers are updated for minor issues arising so that issues arising are not carried forward to the next year.

Management response

We will take into account the above points as part of next year's quality assurance arrangements.

Other deficiencies in internal control – Level 2

Description of deficiency - provisions

A review should be undertaken of all provision balances, in particular business rates appeals and insurance provision balances, due to various issues arising during the audit. These issues have included:

- provisions being made for future events, where no present obligation existed, which does not comply with accounting standards;
- no evidence being readily available to support some provisions (all provisions made should be on the basis of updated estimates made by management);
- insufficient and / or inconsistent narrative to explain the uncertainties and expected timing of use of provisions;
- expected credit losses for long-term debtors being misclassified within provisions again (prior year unadjusted error); and
- provisions not being appropriately split between current and non-current.

Provisions should only be made where:

1. there is a present obligation, either legal or constructive, as a result of a past event:
2. the outflow of economic benefits to satisfy the obligation is probable; and
3. it is possible to reliably estimate the economic benefits.

Potential effects
Potential for misstatement.

Recommendation

All provisions should be reviewed and only provisions which clearly meet accounting standard requirements should be included going forward, supported by appropriate narrative, in particular:

- the insurance provision; and
- the business rates appeals provision.

Management response

This will be actioned.

5. Internal control recommendations

Other deficiencies in internal control – Level 3

Description of deficiency - related party returns from senior officers

Audit testing identified directorships held by some senior officers that had not been explicitly considered as part of the related party returns they completed and returned to the finance team – to feed into the production of the related party transactions disclosure note.

Whilst no undisclosed related parties were identified, it would be good practice for senior officers to list directorships held in their annual return.

Potential effects

Potential for undisclosed related parties.

Recommendation

Amend the related party transactions return that senior officers complete, so that it requires disclosure of any directorships held.

Management response

This will be actioned.

5. Internal control recommendations

Follow-up of previous internal control recommendations – Level 1

Description of deficiency - Property, Plant and Equipment valuations

In 2020/21, the sample size for our valuations testing was more than double than in the previous year, due to the full portfolio valuation. A number of errors were identified, including:

- incorrect use of data after the valuation date, offset by inclusion of a contingency allowance in certain valuations which should not have been included;
- one special school where an entire floor had been omitted;
- incorrect useful economic lives applied to PFI schools;
- a school which should have been brought back on balance sheet the prior year;
- significant unexplained changes in obsolescence factors used; and
- various other errors, including a key report not correctly identifying impairment to be shown in the disclosure note and a valuation not correctly allocated across its components.

A significant amount of work was required as a result of the above errors to establish the nature of the errors and also fully quantify the errors in the relevant sub-populations.

Delays

We acknowledge the considerable efforts and cooperation from the Valuer and Council; there were, however, delays in obtaining all the required information, which may have been partly avoided if there had been greater detail in the valuation report in respect of individual valuations – or if such information had been readily available upon request.

Adequacy of the Valuation Report

Whilst valuations are judgements, there should be sufficient detail to support individual valuations, to evidence key assumptions such as:

- useful economic lives;
- whether the asset had been physically inspected or not; and
- obsolescence factors applied.

In addition, various omissions and errors were noted in the Valuation Report, including: missing beacon property data, omitted BCIS supporting data; and omitted valuation calculations for a few depreciated replacement cost assets.

The format of the council houses beacon valuations was also difficult to follow.

Description of deficiency - Property, Plant and Equipment valuations (continued)

Other

There is also scope for enhancing arrangements in place for PPE valuations, including:

- considering the date of valuation (i.e. 1st April or 31st March) and what data is used in valuing assets;
- ensuring that there is a clear judgement for where assets are valued on a depreciated replacement cost;
- ensuring that depreciated replacement cost valuations which are on an 'instant build' basis are fully compliant with underlying valuation guidance;
- ensuring that obsolescence factors are appropriately split, where presented in this way, into their sub-categories; and
- critically reviewing any change in valuation key assumptions such as obsolescence factors and / or useful economic lives.

Potential effects

Risk of material misstatement.

Recommendation

Consider the areas highlighted from the 2020/21 audit as part of reviewing valuation arrangements.

Management response

These will be considered as part of reviewing valuation arrangements for future years.

Follow-up in 2021/22

The Council appointed new external Valuers for 2021/22.

Sample testing has identified some errors, but significantly less than last year, noting that all assets were revalued last year, whereas only one third were revalued in 2021/22.

One significant change has been in respect of council house valuations, where a change in the basis of valuation has resulted in a significant increase of approximately 22% or £154 million. This was in part due to a change in how council houses are grouped; previously they were grouped on a political 'ward' basis and this has now been changed to a postcode basis. Greater management scrutiny and challenge of this increase should have been evidenced along with disclosure of this significant change in the financial statements.

5. Internal control recommendations

Follow-up of previous year internal control recommendations – Level 2

Description of deficiency – debtor balances

We highlighted in our Audit Completion Report a number of errors from testing, including:

- **a non-material debtors balance with a partner which was no longer a valid debtor**, therefore, should be written off; this had arisen due to a disputed debtor and is partially offset by a linked creditor, with a net impact of £1.715 million;
- **a further debtors balance with local authorities, which contained amounts owing which may similarly no longer be valid, dating back some years**: whilst this was clearly trivial, the Council should ensure it reviews this code (automatic debtors adjustment) in full for the next year; and
- **a trivial balance that the Council appeared to owe to itself:** the Council's own controls should ensure that it is not raising a debtor with itself.

Upon completion of our testing, the following additional issues were identified:

- **an outstanding debtor with a local health partner totalling £8.006 million**, including £5.983 million relating to 2019/20 and 2018/19. This had arisen due to various factors, including lack of agreement of responsibility for care packages.

We note an Internal Audit (IA) report had already identified this issue in 2019/20. IA had followed it up earlier in 2021, at which time no significant progress had been made. As of September 21, we understand that progress has been made, however, evidence of this was not yet available. As this is an area where IA has already highlighted significant weaknesses and is following them up (and which have already been communicated to the Audit and Standards Committee), we are not raising any further recommendation, however, have noted this issue here in terms of issues arising from our testing.

- **a further outstanding debtor with another local health partner for £0.351 million**, including amounts owed dating back to 2017/18 and 2018/19 relating to adult social care costs. This is a common issue for local authorities, however, it is important that there is greater oversight and focus on ensuring the debtors balance is complete and accurate in respect of debtors with health partners, notwithstanding the difficulties.
- **a sample item for a charge on an individual's property, in relation to adult social care:** dates on the underlying documentation did not match the dates for which care was being provided. The Council should consider how this has arisen and whether there is any risk of challenge to the Council in respect of incorrect underlying documentation.

Potential effects

Risk of misstatement.
Risk of non-material outstanding debtors not being followed-up and increasing, year on year.

Recommendation

Consider the areas highlighted from the 2020/21 audit and action as appropriate.

Management response

As indicated above, Internal Audit have recently followed-up their recommendations in relation to prior year care packages and the resolution of historic issues and we anticipate a positive follow-up report, once available.
In respect of the other areas, these will be considered during and at the 2021/22 closedown.

Follow-up in 2021/22

Internal Audit's follow-up report showed good progress had been made.

Based on our follow-up, progress has been made on the recommendation, bar:

- **the outstanding disputed debtor with a partner** referenced to the left was not addressed in time for 2021/22, therefore, remains a carried forward issue and is reported in our summary of unadjusted misstatements; and
- **the Council raising debtors with itself;** this remains an issue which the Council is again following up to make sure it is addressed. The Council has recognised a trivial debtors balance of £0.116m with itself as at 31/3/22 (prior year £0.022m). This arose mainly due to issues in relation to The Gateshead Housing Company coming back in house and the treatment of voids.

5. Internal control recommendations

Follow-up of previous year internal control recommendations – Level 2

Description of deficiency - omitted related party transactions and disclosures
Audit work identified the following omitted related party transactions and disclosures:

- loans to Keelman Homes;
- the companies which run the Baltic and Sage (which are leased to them for a peppercorn amount);
- financial support (i.e. loans) provided to Council-owned entities; and
- year-end debtor and creditor balances for related parties / Council-owned entities

Potential effects

Further undisclosed related parties. Key information omitted from the disclosure note.

Recommendation

The Council should revisit its controls in place for identifying related parties to ensure they correctly capture all relevant transactions and interests. In considering potential related parties, it is important the Council considers materiality in terms of whether transactions / relationships are material not just to the Council, but also the other party.

Management response

This will be actioned and controls reviewed.

Follow-up in 2021/22

The specific issues above have been actioned, however, we note that there are unadjusted disclosure errors in respect of related parties again in 2021/22 and a further recommendation has been raised in respect of this disclosure note.

Follow-up of previous year internal control recommendations – Level 2

Description of deficiency - Annual Governance Statement

The AGS and the governance framework in place covers the period up to and including when the statement of accounts is approved following the audit. The Council should ensure arrangements are in place for any update of the AGS, if required.
We would recommend the Council also considers further the governance arrangements in place for its interests in other entities (e.g. the Trading Company) and how its governance framework covers these.

Potential effects

Lack of clarity over adequacy of governance arrangements in place for the Council's interests in other entities (i.e. joint ventures and subsidiaries).

Recommendation

The Council should review the Annual Governance Statement and the description of the governance framework and consider if it could be enhanced to provide assurance in respect of the Council's interests in other entities (i.e. joint ventures and subsidiaries).

Management response

Arrangements are in place for review of the Council's interests in other entities, via regular internal audit reviews. In addition, the section in the AGS in respect of partnership arrangements also covers the Council's interests in other entities. We will consider the recommendation for next year.

Follow-up in 2021/22

We would recommend the Council considers further clarifying wholly owned subsidiary governance arrangements in its AGS.

5. Internal control recommendations

Follow-up of previous year internal control recommendations – Level 3

Description of deficiency

Evidenced check of annual update of business rates system parameters

Our walkthrough of key controls in the business rates system identified that there was no evidence retained of the input of parameters into the system and any checks done to ensure they were correct. We note there were compensating controls were in place.

Potential effects

System parameters not appropriately updated for the new year.

Recommendation

Ensure evidence is retained showing the input of parameters into the system and how these have been checked.

Management response

This will be actioned.

Follow-up in 2021/22

Recommendation has been actioned.

06

Section 06:

Summary of misstatements

6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £0.426 million for the Council.

1. The first table overleaf 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.
2. The second table outlines the misstatements identified during the prior year audit which were not adjusted for and are carried forward misstatements.
3. The third table outlines the misstatements that have been adjusted by management during the course of the audit.

The table below summarises all errors.

Summary of unadjusted and adjusted misstatements

		Assets	Liabilities	Reserves	Income Statement
		(£'000)	(£'000)	(£'000)	(£'000)
1	Unadjusted misstatements identified during the 2021/22 audit	-2,835	7,069	1,055	-5,289
2	Unadjusted misstatements identified during the 2020/21 audit which remain carried forward	-2,700	1,995	-1,010	1,715
	Sub-total unadjusted misstatements: current year and prior year	**-5,535**	**9,064**	**45**	**-3,574**
3	Adjusted misstatements	-321	47,110	-2,148	-44,641

6. Summary of misstatements

1. Unadjusted misstatements – current year

		Assets	Liabilities	Reserves	Income Statement
		(£'000)	(£'000)	(£'000)	(£'000)
1	Dr: Non-current provisions: Insurance provision		4,597		
	Cr: Gross expenditure				-4,597
	Being amendment to the Insurance provision; testing identified parts of the provision do not meet the definition of a provision, as they relate to future possible events. Consists of actual errors (£2.746m) and an extrapolated error (£1.851m).				
2	Dr: Current provisions - business rates appeals provision		2,472		
	Cr: Gross expenditure				-2,472
	Being the error in respect of the business rates provision, for which insufficient evidence has been provided to support the provision balance as at 31/3/22. In addition, classified as current, when an element should be classified as non-current.				
3	Dr: Gross expenditure				1,780
	Cr: Property, Plant & Equipment – Assets Under Construction	-1,780			
	Being extrapolated expenditure incorrectly capitalised identified from Assets Under Construction additions testing.				
4	Dr: Revaluation Reserve / Capital Adjustment Account			1,055	
	Cr: Property, Plant & Equipment – Other Land & Buildings	-1,055			
	Being an error in the valuation of schools linked to the assessment of the 'modern equivalent asset' m2 used in the calculation.				
	Total unadjusted misstatements – current year	**-2,835**	**7,069**	**1,055**	**-5,289**

6. Summary of misstatements

2. Unadjusted misstatements – prior year carried forward

		Assets	Liabilities	Reserves	Income Statement
		(£'000)	(£'000)	(£'000)	(£'000)
1	Dr: Gross income				3,539
	Cr: Current debtors	-3,539			
	Being the write-back of a disputed debtor of £3.351m for a previous partnership arrangement, where there is no realistic prospect of settlement. Note linked error below, however, as no right of 'set-off', presented separately. Also a further £0.181m relating to a further balance with this debtor where there is similarly no realistic prospect of settlement.				
2	Dr: Current creditors		1,824		
	Cr: Gross expenditure				-1,824
	Being the cancellation of a disputed creditor for a previous partnership arrangement, where there is no realistic prospect of settlement.				
3	Dr: Non-current provisions: Airport Expected Credit Loss		171		
	Cr: Non-current debtors: Airport loan note	-171			
	Being the misclassification of the Airport Expected Credit Loss, which should have been creditor to non-current debtors originally instead of provisions. £0.196m as at 31/3/21 and £0.171m as at 31/3/22; trivial, however, included given the other errors identified for the overall provisions balance.				
4	Dr: Property, Plant and Equipment	1,010			
	Cr: Revaluation Reserve / Capital Adjustment Account			-1,010	
	Being the extrapolated understatement of Property, Plant and Equipment from testing.				
	Total unadjusted misstatements – prior year carried forward	**-2,700**	**1,995**	**-1,010**	**1,715**

6. Summary of misstatements

3. Adjusted misstatements

		Assets	Liabilities	Reserves	Income Statement
		(£'000)	(£'000)	(£'000)	(£'000)
1	Dr: Net defined benefit liability		47,110		
	Cr: Remeasurement of the net defined benefit liability				-47,110
	Being the amendment as a result of the revised Actuary's report obtained, due to there being a significant difference between the data used by the Actuary compared to the Pension Fund in respect of pension assets.				
2	Dr: Non-current investments – Newcastle Airport shares	2,148			
	Cr: Unusable Reserves – Financial Instrument Revaluation Reserve			-2,148	
	Being the correction of the movement in the valuation of Newcastle Airport shares; the movement in the loan notes had been incorrectly posted to the shares balance initially.				
3	Dr: Non-current provisions – Term Time only provision		2,340		
	Cr: Current provisions – Term Time only provision		-2,340		
	Being the reclassification from non-current to current, as the Council has clarified the provisions is expected to be used in 2022/23.				
4	Dr: Grants Receipts in Advance (Revenue)		12,669		
	Cr: Creditors Receipts in Advance		-12,669		
	Being the incorrect classification of the non-discretionary element of the Energy Rebate Grant.				
5	Dr: Gross expenditure				-2,469
	Cr: Property, Plant and Equipment	-2,469			
	Being the adjustment to write out Other Land & Buildings held at historic cost which was not appropriately classified and should have been treated as 'Revenue Funded from Capital Under Statute' as it was capital expenditure on assets not owned by the Council.				
	Total adjusted misstatements	**-321**	**47,110**	**-2,148**	**-44,641**

6. Summary of misstatements

Disclosure amendments

Audit work identified a number of amendments to disclosures. The most significant are summarised below, split into adjusted and unadjusted.

Adjusted disclosure amendments

The Gateshead Housing Company (TGHC)

- The most significant amendments will be as a result of changes to how the Council has accounted for The Gateshead Housing Company coming back in house from 1/4/2021, changing from a 'merger accounting' basis to 'transfer by absorption'. This will impact on current year and prior year primary statements and disclosures. A disclosure note will be included in the revised financial statements setting out the impact. At the time of issuing this report, the Council has not yet applied the revised approach so our conclusions are subject to this happening.

Disclosures

- **Note 2 Critical Judgements:** reinstatement of the Council's judgement in respect of group accounts and why not prepared.
- **Note 4 Accounting standards issued not yet adopted**: amendment to remove references to a leasing disclosure that is not required.
- **Note 5 Assumptions and major sources of estimation uncertainty:** additional disclosure added in respect of the change in council dwelling accounting estimate bases (i.e. asset grouping). Deletion also of a non-material disclosure in respect of provisions.
- **Note 6 Adjustments between accounting and funding basis:** amendments as a result of changes to how the Council has accounted for The Gateshead Housing Company coming back in house from 1/4/2021. Presentation of footnotes updated so that more readable, plus errors corrected. Material adjustments combined in the 'other' line also split out.
- **Note 8 Expenditure and Funding Analysis:** amendments as a result of changes to how the Council has accounted for The Gateshead Housing Company coming back in from 1/4/2021.
- **Note 9 Dedicated Schools Grant**: comparator table added and narrative updated.
- **Note 12 Members' allowances and expenses:** amendment to disclosure due to incorrect inclusion of Fire Authority allowances of £0.017m, for both the current and prior year.
- **Note 14 Officers' remuneration**: footnote added to clarify basis of allowances paid.
- **Note 14 Exit packages:** narrative amended to clarify further that the majority of exit packages in 2021/22 are for expected costs and also to clarify actual redundancies.
- **Note 15 Related Party Transactions.** A number of amendments, including:

  - amending narrative in respect of Members; and
  - update to numerical disclosures in respect of the Council's interests in other entities.

6. Summary of misstatements

Disclosure amendments

Adjusted disclosure amendments - continued

- **Note 17 Property, Plant and Equipment.** Amendments as a result of changes to how the Council has accounted for The Gateshead Housing Company coming back in from 1/4/2021.
  Other narrative amendments plus:
  - removal of the 'buildings – finance lease' column in the main disclosure note as it did not contain all finance leases and it is not a required heading where there is separate disclosure of finance lease liabilities (relating to PFI arrangements in this instance);
  - amendments to the 'revaluations' table, including moving Assets Under Construction to the 'historic cost' line.

- **Note 20a Private Finance Initiative:** amendment to asset value disclosures due to errors identified.

- **Note 24 Provisions:** amendments to the narrative to clarify what the Trinity Square provision relates to and also the expected timing of use of the redundancies provision.

- **Note 26 Financial Instruments:** various amendments to clarify disclosures, including the disclosure showing the reconciliation of liabilities arising from financing cash flows.
  Amendment to the disclosure of gains and losses which had excluded the impairment of debtors held at amortised cost.
  Amendment to the Financial Instrument Revaluation Reserve disclosure note (no impact on the primary statement) due to the correct of a prior year error which was not accounted for correctly.

- **Note 40 Pensions**: amendments as a result of the revised Actuary's report, plus also amendments as a result of changes to how the Council has accounted for The Gateshead Housing Company coming back in house from 1/4/2021.

- **Joint arrangements:** the Council has material joint arrangements with the former local clinical commissioning group; the revised accounts include a disclosure setting this out.

- **Housing Revenue Account Note 2:** amendment to the number of council dwellings disclosed.

Unadjusted disclosure amendments

- Note 14 Exit Packages: omission of one non-material exit package.

- **Note 15 Related Party Transactions**. There are two brought forward unadjusted disclosure errors:
  - the Council has not disclosed year-end balances outstanding for entities in which it has an interest (e.g. the Trading Company); and
  - the Council has not disclosed details of support (e.g. loans) to entities in which it has an interest (e.g. the Energy Company).

- **Note 26 Financial Instruments:** the disclosure in respect of Expected Credit Losses should set out how forward-looking information is incorporated into the assessment.

- **Cash Flow Statement disclosures (combined with the statement):** the movement in the impairment of debtors allowance has incorrectly included part of the movement in provisions again in error; whilst trivial, this is a recurring error which should be adjusted for going forward.

07

Section 07:

Value for Money

Page 44

7. Value for Money

Approach to Value for Money

We are required to consider 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 and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - how the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - how the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - how the Council uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report no later than three months after the auditor's report on the financial statements is signed.

Status of our work

We are yet to complete our work in respect of the Council's arrangements for the year ended 31 March 2022. At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however, we continue to undertake work on the Council's arrangements.

As noted already, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report no later than three months after the auditor's report on the financial statements is signed.

Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

Appendix A: Draft management representation letter

Mr Cameron Waddell
Partner
Mazars LLP

Date:

Gateshead Metropolitan Borough Council - audit for year ended 31 March 2022

This representation letter is provided in connection with your audit of the financial statements of Gateshead Metropolitan Borough Council (the Council) for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) and applicable law.

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

My responsibility for the financial statements and accounting information

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

My responsibility to provide and disclose relevant information

I have provided you with:

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

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

Accounting records

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

Appendix A: Draft management representation letter

Accounting policies

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

Accounting estimates, including those measured at fair value

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

Contingencies

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

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

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

There are no contingent gains which should be disclosed.

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

Laws and regulations

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

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

Appendix A: Draft management representation letter

Fraud and error

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

I have disclosed to you:

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

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

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law. I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Charges on assets

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

Impairment review

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

Future commitments

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

Service Concession Arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in 2021/22 in relation to the Council's PFI schemes that you have not been made aware of.

Appendix A: Draft management representation letter

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed .Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Council 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 financial statements.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. *[Please ensure an appendix is attached to the letter setting out all unadjusted errors]*

Yours faithfully

Strategic Director, Resources and Digital: ……

Date……

.

Appendix B: Draft audit report

Independent auditor's report to the Members of Gateshead Metropolitan Borough Council

Audit opinion

We anticipate issuing an unqualified opinion, without modification, on the financial statements, however, this is subject to the conclusion of matters in relation to infrastructure which remain outstanding at the time of issuing this report; further detail is set out in sections 2 and 4.

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.

Appendix D: Other communications

Other communication	Response
Compliance with laws and regulations	We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.
External confirmations	There were some delays and issues with regard to obtaining external confirmations, however, nothing which has indicated any risk of material misstatement, whether due to fraud or error.
Related parties	Issues were identified in respect of related parties disclosures, as set out in section 4 'significant matters discussed with management' and section 06 'adjusted disclosure amendments', along with an internal control recommendation raised in section 5. We will obtain written representations from management confirming that: a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going concern	We have not identified any evidence to cause us to disagree with the Strategic Director, Resources and Digital that Gateshead Metropolitan Borough Council will be a going concern, and therefore, we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements. We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.

Appendix D: Other communications

Other communication	Response
Subsequent events	We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework. We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.
Matters related to fraud	We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and the Audit and Standards Committee, confirming that a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: i. management; ii. employees who have significant roles in internal control; or iii. others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Cameron Waddell, Partner

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

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.

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Gateshead Council

APPENDIX 3

Mr Cameron Waddell
Partner
Mazars LLP
The Corner
Bank Chambers
26 Moseley Street
Newcastle upon Tyne
NE1 1DF

My Ref:
Your Ref:

Date: 27 October 2022

Dear Cameron

Gateshead Metropolitan Borough Council - audit for year ended 31 March 2022

This representation letter is provided in connection with your audit of the financial statements of Gateshead Metropolitan Borough Council (the Council) for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) and applicable law.

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My responsibility for the financial statements and accounting information

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

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I have provided you with:

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

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

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Accounting policies

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

Accounting estimates, including those measured at fair value

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

Contingencies

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

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

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

There are no contingent gains which should be disclosed.

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

Laws and regulations

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

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

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Service Concession Arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in 2021/22 in relation to the Council's PFI schemes that you have not been made aware of.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed. Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly. Currently, this includes the outstanding work in relation to accounting for The Gateshead Housing Company coming back into the Council's single entity Statement of Accounts.

Going concern

To the best of my knowledge there is nothing to indicate that the Council 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 financial statements.

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.

[Summary setting out all unadjusted errors to be added as an appendix once outstanding work is complete]

Yours sincerely

Darren Collins
Strategic Director, Resources and Digital

Gateshead Council

STATEMENT OF ACCOUNTS 2021/22

Subject to audit

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Leader's Foreword

by Councillor Martin Gannon
Leader of the Council

I am pleased to introduce the Council's annual Statement of Accounts for 2021/22 which reflects the Council's financial position. Our agreed *Thrive* agenda continues to place people and families at the heart of all that we do, as we strive to deliver person-centred services to residents in the borough.

Unprecedented times

The past few years have been truly unprecedented times for Gateshead, the country, and indeed the whole world. The impact of Brexit, the pandemic, several storms in quick succession, spiralling energy costs, and the challenge of the rising cost of living continue to affect us all. Each requiring tough choices and difficult decisions to be taken in response.

As a Council, we have also condemned the actions of Russia and stand in solidarity with the people of Ukraine as war continues to take place.

Working together

Despite the enormity of the challenges faced in recent times, our local communities right across the borough have come together to support our vulnerable residents and continue to do so for those most in need. It is my sincere wish that we maintain the renewed sense of neighbourliness that has come to the fore during the pandemic.

With restrictions now removed, adjusting to a new "normal" will take time, and a collective effort - we're all in this together. As we get back to some of the everyday activities that we've longed for, we must do so with a renewed sense of community spirit. Let's be guided first and foremost by looking after each other.

Moving forward

Despite the challenges we collectively face, the Council remains resilient and ready to help.

We're committed to building a more sustainable Gateshead for our residents. Working together with our public, private, and voluntary sector partners - we retain our bold ambition for residents and stakeholders, and continue to make investment in, and work on, ground-breaking projects to make Gateshead more resilient, such as: -

- The Sage – this development, opening in 2024/25, will provide a global stage for the North East through the development of an arena, conference and exhibition space and hotels on Gateshead Quays – all with a strong community emphasis. Importantly it will contribute a £100m annual boost to the local economy; bring 2,000 new jobs; provide local supply chain opportunities; and attract over 1m visitors.
- Gateshead District Energy scheme – our award-winning scheme provides low cost, low carbon energy for residents and businesses within Gateshead town centre and this continues to grow and extend within the borough.
- Heat from mine water – Gateshead is recovering heat from mine water below the ground within abandoned coal mines, which will provide an opportunity to generate a low carbon, secure supply of heat. This will benefit residents and businesses.

- Growing solar farms - we are increasing the amount of solar photovoltaic panels to continue tackling the climate emergency, and help protect against volatile, rising energy prices.

- Digital and online improvement - the demand for digital services has continued to increase, particularly during the pandemic. Following a major upgrade last year to Gateshead Council's website, more services than ever are now available 24/7 at www.gateshead.gov.uk

These are just a few examples of what we are working on.

Whilst a number of these projects aim to provide sustainability into the future, we acknowledge that some areas of our business have fallen short of residents' expectations in recent times. Like many organisations we have been impacted by the pandemic and have needed to divert some staff into other roles to support the response to this; or have had colleagues absent owing to Covid. There continues to be pressure in the system, but we are monitoring these closely. We have also managed to put far more services online and are providing other services in more accessible locations.

Financial support and budget challenges

The Council in 2021/22 continued to play an active role in the overall national response to COVID-19, including the administration of business rate reliefs and grants, supporting households through the council tax reduction scheme, supporting the care sector, providing support to vulnerable residents, and enabling much of our workforce to work remotely to maintain essential services. Our focus throughout has been to provide support to those who have needed us most.

The Council's Medium Term Financial Strategy (MTFS) to 2026/27 presents an extremely challenging financial position over the medium-term and identified an estimated funding gap of £45m over the five-year period with £29m in the first three years. The new approach to budget resulted in savings impacts being smoothed through use of reserves. Using reserves in this way means it is crucial to plan and deliver a savings programme to achieve a balanced budget. The impacts of the pandemic on demand, costs and income will be long lasting and will likely increase the challenge to the medium to long term financial sustainability of the Council. Despite these challenges, the Council continues to invest in the assets of the borough with planned capital expenditure forecast to be £491m over the five years. This will encourage economic and housing growth which will bring about new jobs, new homes and increase the skills of local people. This growth is essential to the wellbeing of the borough and its residents and to provide the council with the means other than service cuts to maintain a sustainable financial position.

Prior to the pandemic, the Council was already addressing the challenge of cumulative annual cuts to Government funding, which alongside other spending pressures such as rises in the cost of living and an ageing population, have left the Council with substantial budget pressures. A clear focus for our recovery will be creating conditions to improve the health and well-being of all our residents. During this period, we will also need to make bold decisions, so our resources are focused towards creating a fairer Gateshead.

Thank you

In concluding this foreword, I would like to personally thank the residents of Gateshead, for their support and understanding during these difficult times.

I also want to thank our Council staff, who have maintained core public services throughout the pandemic.

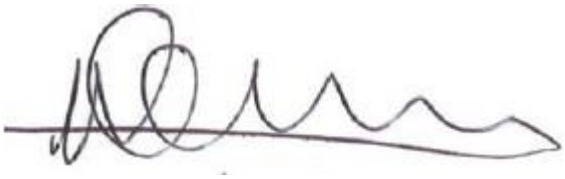
Finally, I'd like to thank the voluntary and community sector, and our business community for the amazing ways in which they have responded to the challenges they've faced.

As we move into the recovery phase, we'll continue to focus our efforts on helping those who

need us most, whilst securing a better Gateshead for all.

Councillor Martin Gannon

Leader of Gateshead Council



Part 1: Narrative Statement and Statement of Responsibilities

Narrative Statement

Introduction

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

The Statement of Accounts which follows presents the Council's financial performance for 2021/22, its overall financial position at the end of that period and the cost of services it provides. The Statement has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code), developed by the CIPFA/LASAAC Board and approved by FRAB, and is based on EU-adopted IFRS. The Code constitutes proper accounting practice.

The Statement of Accounts presents the Council's financial statements and other financial and governance information. The Council have made a judgement that all other related entities are not considered to be material and therefore have not been consolidated into the Group Financial Statements.

Governance

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework. Further information is available in the Annual Governance Statement (p84-89) which was approved by the Audit and Standards Committee on 28 June 2022. The statement explains how the Council has complied with the Code and also meets the requirements of regulation 6(1) of the Accounts and Audit Regulations 2015.

Making Gateshead a Place Where Everyone Thrives

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

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

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

Our approach

The Council's Medium-Term Financial Strategy (MTFS) is based on a financial forecast over a rolling five-year timeframe from 2022/23 to 2026/27. The MTFS sets the financial context for the Council's resource allocation process and budget setting.

Over the five-year period, the Council estimates that it will need to close a financial gap of £63m (including COVID impacts). This impact will be mitigated temporarily through the proposed planned application of £20m budget sustainability reserve over the next three financial years. Efficiencies and savings of £45m will be required over the medium term. Within this financial context the budget process has been built upon council wide working to deliver a sustainable long-term financial position.

MTFS executive summary

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

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

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

The Council will keep its medium term financial position under regular review.

Further details can be found in the MTFS which was reported to Cabinet in October 2021.

COVID-19 Response

The COVID-19 pandemic has continued to have a significant financial impact on the Council during 2021/22. The Council continued to play an active role in the overall national response to COVID-19, including the administration of business rate reliefs and grants, supporting households through the council tax reduction scheme, supporting the care sector, providing support to vulnerable residents, and enabling much of our workforce to work remotely to maintain essential services. Our focus throughout has been to provide support to those who have needed us most.

Achievements in 2021/22 and beyond

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

➢ Pandemic

- The level of response to the challenges of the pandemic and the hard work undertaken to support vulnerable people in Gateshead working with partners, volunteers and VCS to support vulnerable people during the pandemic.
- The Director of Public Health Annual Report published in January highlighted that the pandemic had widened inequalities across Gateshead however it also celebrated how communities and organisations across Gateshead came together to support each other through the pandemic.
- Winter Flu Vaccination Programme and successful approaches to deliver Covid-19 vaccines with our partners taking a targeted approach focusing on delivering an offer to local communities with greatest need.

➢ Children's Services

- An Ofsted visit found that families across Gateshead are benefitting from sensitive, innovative child-centred help and highly-skilled and caring social workers. The focused visit to Gateshead's children's services evaluated the help and protection given to vulnerable families by the integrated referral team and the assessment and intervention team. Two areas for improvement were identified and the Council is working hard to improve the areas identified for improvement and have plans in place to ensure it continues to build on its successes.
- The Council continues to meet the outcomes target set by the Department for Levelling Up, Housing & Communities for whole-family support through the Supporting Families Programme. Gateshead has met 100% of the targets set since the programme's inception in 2012.

- Successful delivery of the national (DWP) Reducing Parental Conflict Programme on behalf of the North-East, providing a 'Referral Gateway' function as the lead Local Authority for 1,899 regional referrals into four evidence-based pathways for parents experiencing relationship distress.
- Children's holiday programmes have been successful in engaging 758 young people aged 5-17 years in positive activities many attending multiple times (3,926 individual attendances) including those referred by social care services and schools. 887 children's centre sessions delivered over 15 Gateshead venues and attended by 1,609 families and nearly 2,000 children under 5 years.
- Community outreach and activity clubs engaged 479 individual attendances including 36 children with Special Educational Needs and disabilities, offering respite, social opportunities, physical activity and sensory play.
- The first Family Drug and Alcohol Court (FDAC) in the North East was launched to try to reduce the number of children taken into long-term care. This partnership with Newcastle City Council, North Tyneside Council and the judiciary, adopted a multi-agency approach to support families impacted by drug and alcohol abuse. The court, which is for parents whose children are subject to proceedings due to their drug and alcohol problems, will operate as part of an initial two-year pilot.

➢ Adult Social Care

- An audit of Gateshead Council's Care Call remote care services, which has over 8,000 users, has assessed them to be of the highest standard, enabling service users to live thriving and independent lives. The service enables Gateshead residents to live safely and independently at home by providing emergency cover 24 hours a day, 365 days a year from trained staff who are available to respond to a variety of situations. The audit report, commissioned by TEC Quality, found Gateshead's services to be 'compliant', which is the highest rating in its framework criteria.
- The Council is delivering a multi-million pound mixed-tenure development at Whitley Court, Wrekenton. An ex-brownfield site will see 44 new homes built, giving residents quality housing options to suit their individual requirements. This will include 4 bungalows and 12 apartments as supported accommodation for people with autism and learning difficulties. The scheme will include a sensory garden.
- A new social care facility, The Sister Winifred Laver Promoting Independence Centre is being developed and will open in Felling in 2023. This will support older people in Gateshead to live more independent lives offering short-term care for adults, either leaving hospital or admitted from the local community, helping them to regain the skills and confidence they need to go back to living their lives independently in their own homes.
- Watergate Court successfully opened in April 2022 with over 30 residents and with particular success in the dementia friendly accommodation.

➢ Economy

- A new Economic Strategy for Gateshead was launched in 2021 setting out the priority areas and how the Council and its partners will focus on these to improve economic growth, jobs and employment
- Over £2.1m of the Government's Community Renewal Fund has been awarded to four successful bids from Gateshead**.** The Community Renewal Fund was one of the measures to support recovery following Covid-19. The £220m fund supports one year pilot projects to demonstrate ideas which could then go forward to potentially benefit from the £1.5bn Shared Prosperity Fund. Successful bids include Gateshead Riverside Partnership, Future You, Immex City pilot programme (formerly NCIT) and Future Markets Acceleration Programme. The four bids had to demonstrate how they aligned with the themes of the fund and contribute to local priorities, such as making Gateshead a place where everyone thrives.
- Enabling works for the Conference and Exhibition Centre have commenced on site which is due to be operational in 2024/25. The Council has led the development of the site which involves £300m of regeneration investment. The enabling works package is a significant step forward for developing the scheme which is expected to create some 2,000 new jobs (during construction and to operate the complex on completion) and provide around a £100 million annual boost to the local economy. It is anticipated the site will attract over 1 million additional visitors each year.
- Make A Change, funded by the European Social Fund, is focused on providing specialist, well targeted and integrated employment support to those with multiple barriers and complex needs. The project has supported 131 females, 132 males, 84 residents with disabilities and 40 Black, Asian and Minority Ethnic's.
- The Strategic Account Management Programme engages key employers to attract and retain investment and jobs and to promote responsible business and employment practices. Support to employers has resulted in creation of 763 new jobs and safeguarded a further 365 jobs in the Borough.
- Established an 'Innovation Delivery Partnership' to steer the Council and its partnership efforts to drive growth in the immersive technologies sector.
- In the last 12 months the events and hospitality sector has gained momentum in its recovery from the impact of the pandemic with 121 events delivered across Gateshead with approximately 68,000 people attending:

- Gateshead welcomed international athletics back to the International Stadium as the venue hosted two Diamond League Athletics meetings. The event was carried out in line with Covid-19 guidelines ensuring that spectators were able to enjoy world class athletics safely.
- Tour of Britain, returned to Gateshead with the finale of Stage 6 taking place alongside the iconic Angel of the North.
- Other successful strategic events included Great North Run and Try on the Tyne, which all helped to showcase Gateshead locally, nationally and across the world.

Homes

- The new Housing Asset Management Strategy 2022-27 outlines extensive plans to balance the Housing Revenue Account (HRA) by investing in viable housing stock while divesting of unpopular properties. The plans confirmed £96m capital investment on homes and communities over the next five years, with an ambitious plan to build 400 new homes in the next ten. The 30-year HRA Business Plan is fully funded and positioned to meet sector challenges and deliver local priorities.
- The Council has worked closely with the Regulator for Social Housing to ensure that Gateshead is compliant with all health and safety regulatory requirements. The progress made in health and safety in our properties has resulted in the Regulator agreeing that the Council can leave the voluntary undertaking it entered, satisfied that robust systems and procedures are in place, offering the assurance required of all social landlords.
- The focus on providing advice and support to tenants led to £1.7 million of financial gains for tenants to help sustain tenancies. This support has resulted in no evictions for rent arrears and minimal legal action over the last two years during the pandemic. In line with Thrive, the focus is on trying to sustain tenancies and working with tenants.

Environment

- Continued improvement in Investors in the Environment Audit (progress towards Climate Change Emergency) achieving Silver status recognising the good progress of the Council. Gateshead is aspiring to achieve zero carbon emissions for all council buildings and homes by 2030 - a full 20 years earlier than the national target. This is a key element of the council's Climate Emergency Action Plan, following the authority declaring a climate emergency in 2019.
- The Council is investing almost £4m in solar photovoltaic panels at four key sites it owns in the town centre area. Together the four sites will generate a total of 4.0 megawatts of green electricity - supplied directly to more than a dozen council buildings through our private electricity network across Gateshead town centre. This will mean the council saves money on its energy bills, and takes a further step towards decarbonising energy generation across Gateshead.
- The Council committed £750,000 over the next three years to try to tackle more fly-tipping, litter and graffiti across the borough**.** The Environmental Investment Scheme, which aims to tackle eyesores in dozens of local communities, will see a new team of workers recruited to tackle particular issues in a prioritised way.
- Achieved the APSE (Association of Public Service Excellence) Most Improved Performer winner for Street Cleansing.

Locality working

- A key element of the new locality working approach has been the collaborative working between the Council and its Voluntary Community and Social Enterprise (VCSE) partners to support households affected by the pandemic through community hubs. Based on this the Council and 5 community anchor organisations have embarked on a 3-year £1.2m project with £500k Lottery Community Fund support to develop community led locality working, develop anchor organisation capacity, and help reduce demand for services by tackling challenges in neighbourhoods.
- Supporting residents through Household Support Grant allocating £1,836,629 between September 2021 and March 2022. The fund was intended to support those at risk of going cold or hungry and allocations included vouchers for children in receipt of free school meals, support for school uniforms, food support via VCSEs, support for energy payments, and support for household essentials. 50% of the funding was for households with children.

Other

- The Council is working with Oxygen Finance to introduce a new early payment initiative to improve cash flow for its suppliers. The scheme is in line with the recommendations of the national prompt payment code and is designed to support businesses in the current challenging business climate.
- Online payments have increased following expansion to include new services. An increase of £2.3m in online payments has been recorded. There is a steady increase in the proportion of transactions. The Council is

supporting people who find it difficult to access online services.

Financial Performance

The Council classifies its expenditure and income as:

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

or

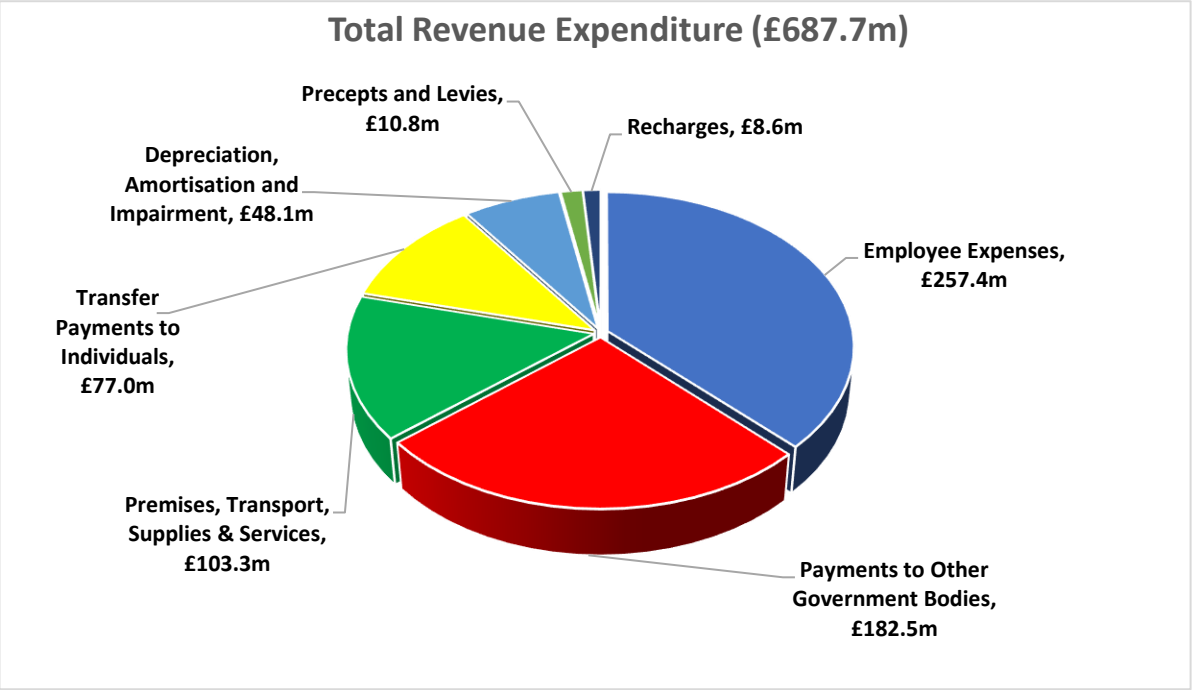
Capital: relates to assets which have a useful life in excess of one year, financed by capital receipts, borrowing, grants or other contributions

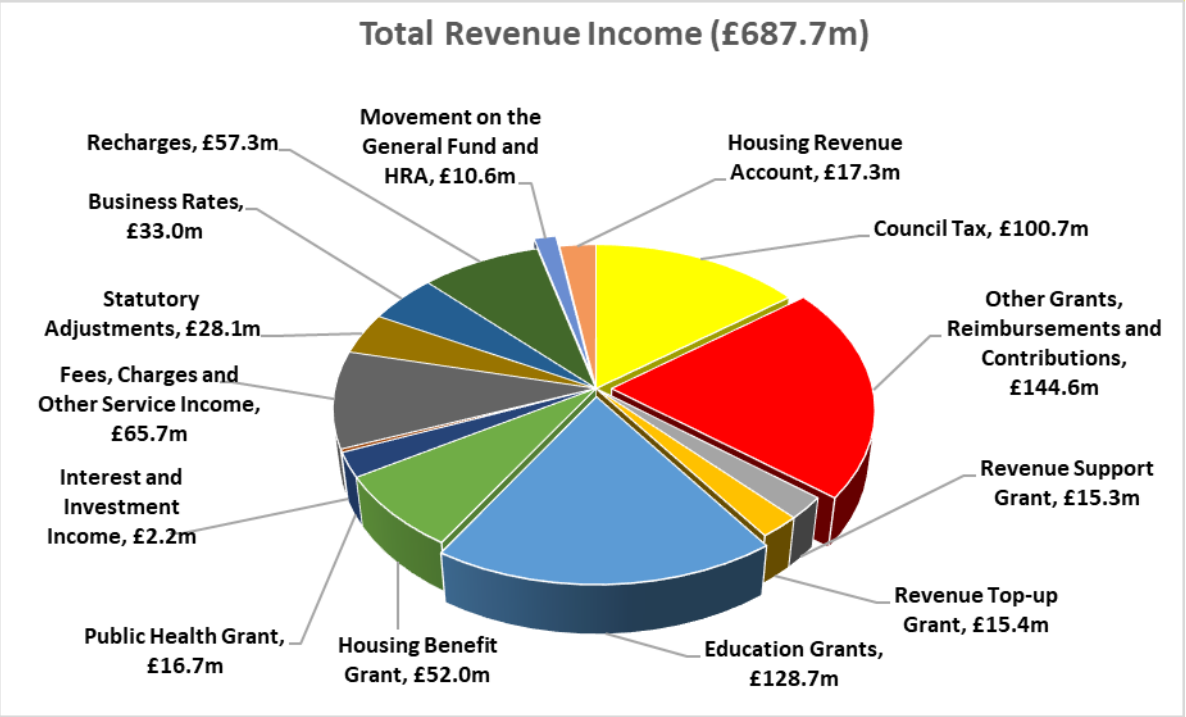
The following sections discuss the Council's revenue and capital income and expenditure during 2021/22.

Revenue Income and Expenditure Summary

This section offers a summary of the income and expenditure presented within the Movement in Reserves Statement (page 23), the Comprehensive Income and Expenditure Statement (page 24) and the Housing Revenue Account (HRA) statement (page 80). The information reconciles to the net movement in the General Fund, which includes the General Reserve and Local Management of Schools (LMS) reserve, and HRA reserves.

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





Position against Revenue Budget

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

The key outcomes for the year are as follows:

- Council agreed the original revenue budget for 2021/22 on 25 February 2021. This was set at £238.758m.
- The actual net expenditure after applying reserves but before financing was £231.425m. This combined with Council financing being less than budgeted resulted in an overall council surplus of £0.432m.
- There was a £17.322m transfer to reserves related to the receipt of the COVID-19 grant funding during 2020/21 which was carried forward and partly used to fund expenditure incurred in 2021/22. (£11m of this has been used to finance the 2022/23 budget in respect of low rate income).
- The Council carried out a strategic review of reserves during the (MTFS) in October 2021, as a consequence of this as well as outturn the Council's General Fund balance has decreased by £5.467m to £8.500m, which is 3% of the 2022/23 revenue budget.
- There was a small increase in the ringfenced LMS Reserve (schools) to £8.946m.
- As a result of the strategic review and outturn earmarked reserves decreased by £3.259m to £84.570m. This position includes a one-off transfer to reserves of section 31 grants relating to the collection fund deficit and will be used to support the financing of the 2021/22 budget as per government guidance.
- Changes to reserves are set out in note 6b.

Further details can be found in the Council's Revenue Outturn which was reported to Cabinet on 21 June 2022. The following shows the Council's spend against Budget for 2021/22[2]:

	Revised Budget	Outturn Before Reserves	Use of Reserves Mitigation & grant	Outturn	Budget Variance
	£000's	£'000s	£000's	£000's	£000's
Children, Adults and Families	116,032	119,997	(1,889)	118,108	2,076
Public Health and Wellbeing	18,986	24,587	(4,294)	20,293	1,307
Housing, Environment and Healthy Communities	23,870	20,913	177	21,090	(2,780)
Economy, Innovation and Growth	2,545	3,007	183	3,190	645
Office of the Chief Executive	824	786	(56)	730	(94)
Corporate Services and Governance	5,887	5,541	0	5,541	(346)
Resources and Digital	11,993	9,881	205	10,086	(1,907)
Other Services and Contingencies	19,602	5,325	4,410	9,735	(9,867)
Capital Financing Costs	33,427	34,890	0	34,890	1,463
Traded & Investment Income	(3,566)	(1,581)	0	(1,581)	1,985
Expenditure passed outside General Fund	(1,855)	(1,457)	0	(1,457)	398
Levies	11,013	10,800	0	10,800	(213)
Net spend before financing	**238,758**	**232,689**	**(1,264)**	**231,425**	**(7,333)**
Settlement Funding Assessment (SFA)	(51,134)	(50,328)	0	(50,328)	806
Other Grants	(35,672)	(35,469)	0	(35,469)	203
Public Health	(16,541)	(16,755)	0	(16,755)	(214)
Council Tax	(100,503)	(100,503)	0	(100,503)	0
Collection Fund (Council Tax)	328	328	0	328	0
Earmarked Reserves	(2,542)	0	(2,542)	(2,542)	0
COVID Funding	(6,130)	(17,346)	17,322	(24)	6,106
COVD Funding – in support of Collection Fund deficit	(26,564)	0	(26,564)	(26,564)	0
Financing	**(238,758)**	**(220,073)**	**(11,784)**	**(231,857)**	**6,901**
Total Net (under) / over spend					**(432)**
Council General Reserve – opening balance				**(13,968)**	
2021/22 underspend				(432)	
Strategic Review Adjustment				5,900	
Council General Reserve – closing balance				**(8,500)**	

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

[2] Note that this excludes schools and HRA.

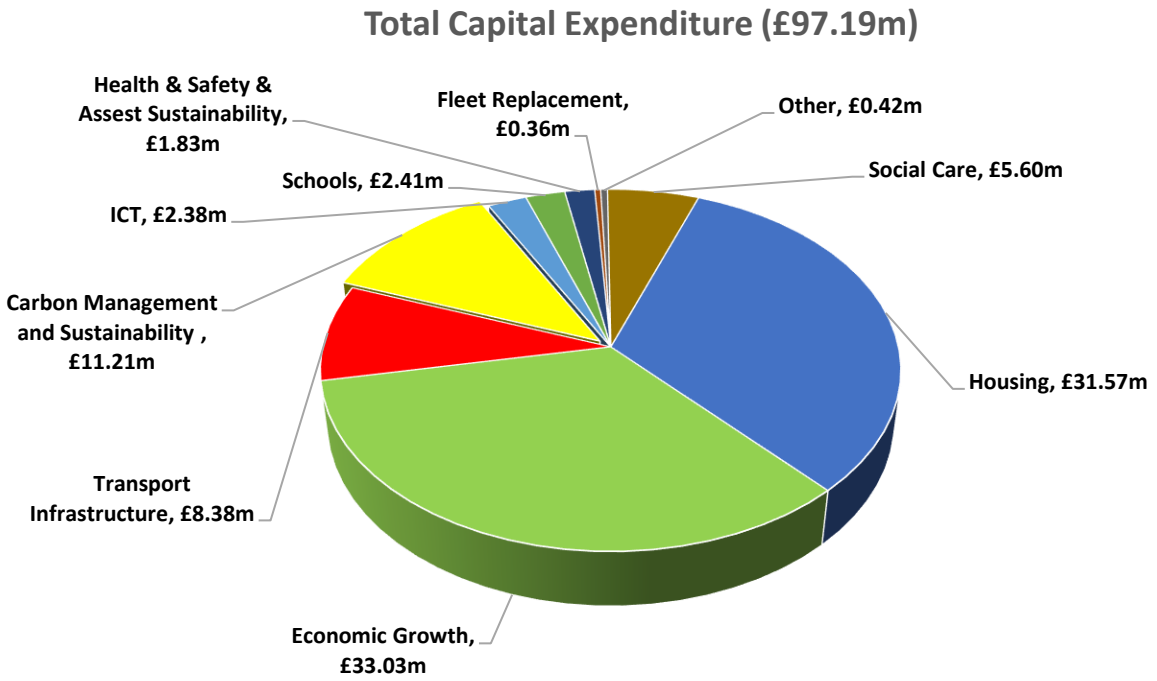
Capital income and expenditure summary

In 2021/22, the Council spent £97.19m on capital schemes (2020/21: £70.8m), with capital investment focused on the delivery of Council priorities. A number of schemes were supported during the year, with particular emphasis on housing, economic growth, energy efficiency and sustainability projects.

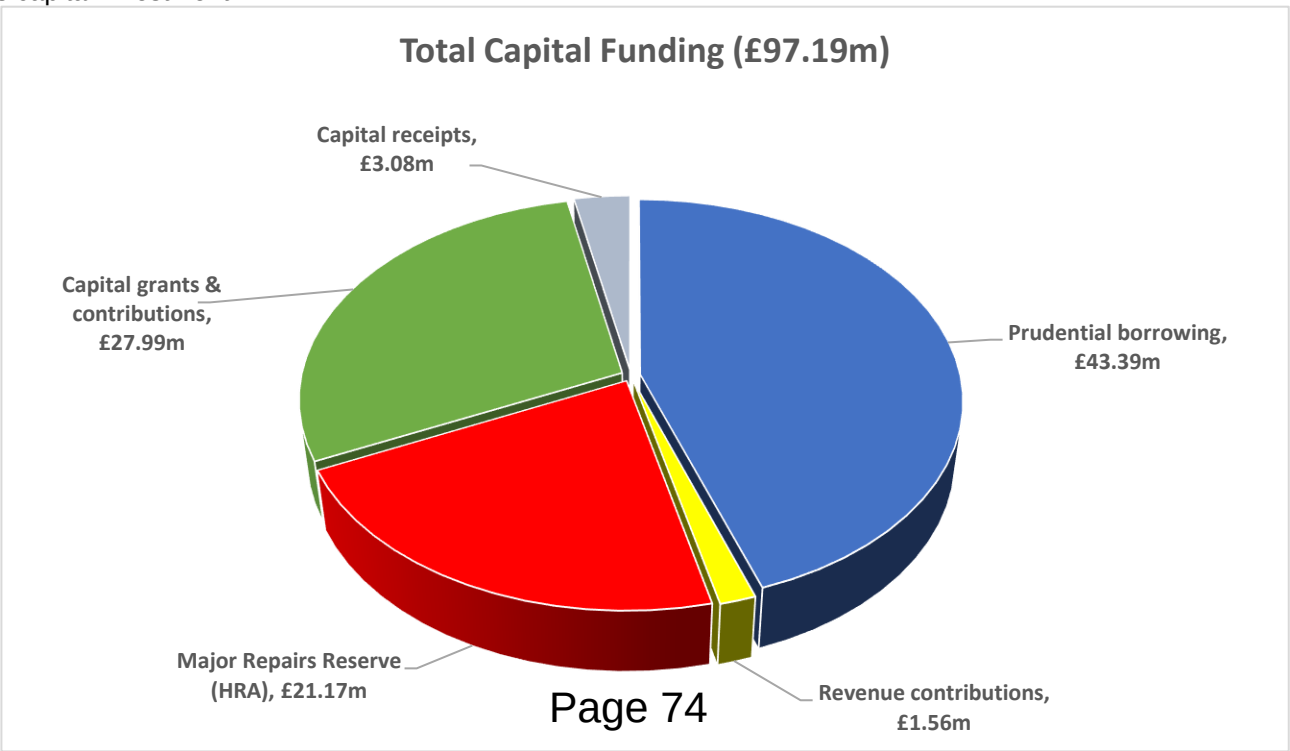
Actual capital expenditure for the year on the Council's non-current assets totaled £88.80m (2020/21: £63.0m). This expenditure was invested in the purchase and improvement of the Council's assets such as housing, schools and transport infrastructure. In addition, the Council spent a further £8.39m (2020/21: £7.8m) on schemes where no asset of the Council was created. This includes:

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

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



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



Balance sheet summary

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

Balance Sheet as at 31 March 2021

Total Assets £1,681m					
Long Term Assets £1,473m				Current Assets £208m	
Property, Plant & Equipment £1,403m	Heritage £28m	Other £5m	Debtors & Investments £37m	Debtors £114m	Cash, equalivalents & Others £94m

Less:

Total Liabilities (£1,567m)					
Current Liabilities (£182m)			Non Current Liabilities (£1,385m)		
Borrowing (£44m)	Creditors (£108m)	Cash, equivalents & Others (£30m)	Borrowing (£620m)	Pensions (£703m)	Other (£62m)

Equals:

Total Net Assets £114m

Funded by:

Total Reserves (£114m) Note 6b					
Useable Reserves (£158m)				Unuseable Reserves £44m	
General Fund (£23m)	Earmarked (£88m)	HRA (£31m)	Other (£16m)	Pension £703m	Other (£659m)

Balance Sheet as at 31 March 2022

Total Assets £1,929m					
Long Term Assets £1,683m				Current Assets £246m	
Property, Plant & Equipment £1,605m	Heritage £29m	Other £5m	Debtors & Investments £44m	Debtors £99m	Cash, equalivalents & Others £147m

Less:

Total Liabilities (£1,456m)					
Current Liabilities (£204m)			Non Current Liabilities (£1,252m)		
Borrowing (£17m)	Creditors (£167m)	Cash, equivalents & Others (£20m)	Borrowing (£655m)	Pensions (£536m)	Other (£61m)

Equals:

Total Net Assets £473m

Funded by:

Total Reserves (£473m) Note 6b					
Useable Reserves (£148m)				Unuseable Reserves (£325m)	
General Fund (£17m)	Earmarked (£85m)	HRA (£26m)	Other (£20m)	Pension £536m	Other (£861m)

Financial Indicators

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

Working Capital Ratio

The working capital ratio indicates whether the Council has enough resources to cover its immediate liabilities. A ratio of less than one indicates potential liquidity problems. The Council's ratio is currently 1.2 (1.2 at 31 March 2021) demonstrating a strong position.

Long-Term Borrowing to Long-Term Assets

This ratio shows long-term borrowing as a share of long-term assets. A ratio of more than one means that long-term borrowing exceeds the value of long-term assets. The Councils current ratio is 0.4 (0.4 at 31 March 2021), meaning that the Council has enough long-term assets to cover its long-term liabilities.

Other Key Items in 2021/22

Housing Review

On 17 November 2020 Cabinet agreed to the integration of the management and maintenance of its housing stock back into the Council with effect from 1 April 2021. This resulted in the cessation in the operation of The Gateshead Housing Company (TGHC) and its governance arrangements, and all of its housing functions and responsibilities transferred into the Council on 1 April 2021.

The transfer has been accounted for under the merger accounting provisions of the Code and all assets and liabilities of TGHC are incorporated into the Council's single entity financial statements for 2021/22. Given that TGHC was the only entity included in Group Accounts in previous years, the necessary comparative data reflects the Group position reported as at 31 March 2021.

The TGHC balance Sheet position as at 31 March 2021 together with any adjustments to determine the group position as at 31 March 2021 is outlined below. All balances have been transferred to the Council in line with the provisions of the Code under the provisions for merger accounting.

During 2021/22 payments of £0.526m were made by TGHC to clear prior year liabilities of this £0.056m related to VAT and £0.335m was accrued for and accounted for in the closing creditor balances as at 31 March 2021. The remaining £0.135m for which no accrual had been made in the Gateshead Housing Company Accounts for 2020/21 has been funded from the TGHC usable reserves. The VAT was included in the final TGHC VAT return as at 30 June 2021.

All liabilities between TGHC and Council have been settled during 2021/22. As at 31 March 2022 TGHC still exists as an entity as the formal winding up process is yet to commence but this will be undertaken prior to 31 December 2022.

	31/03/2021 £000s		
	TGHC	Intragroup	Consolidated
Property, plant & equipment	829		829
Intangible assets	23		23
Non-current assets	**852**		**852**
Inventories	1,225		1,225
Current debtors	1,485	(1,098)	387
Cash and cash equivalents	2,027		2,027
Current assets	**4,737**		**3,639**
Current creditors	(4,914)	1,098	(3,816)
Current liabilities	**(4,914)**		**(3,816)**
Non-current provisions	(103)		(103)
Pensions liability	(73,660)		(73,660)
Non-current liabilities	**(73,763)**		**(73,763)**
			-
Net assets	**(73,088)**		**(73,088)**
Usable reserves:			
Useable Reserves of Group Entities	572		572
TGHC Pension Reserve	(73,660)		(73,660)
Total usable reserves	**(73,088)**		(73,088)
Unusable reserves	**-**		**-**
Total reserves	**(73,088)**		**(73,088)**

- Accumulated absences have been aggregated into the Council's Accumulated Absence Account, an unusable reserve.
- The Insurance Provision has been incorporated into the Council's Insurance Provision (note 24).
- The TGHC pension reserve was shown within the consolidated group position as at 31 March 2021 in the usable reserves section of the balance sheet. The assets and liabilities have been subsumed in the Council's pension disclosures with effect from 1 April 2021. The Council's pension reserve is shown within unusable reserves.
- The TGHC reserve opening balance of £0.572m was shown as useable reserves of Group Entities as at 31 March 2021. As the main activities of the TGHC was in the management and maintenance of the Council's housing stock the balance has been transferred into the Housing Revenue Account reserves.

Material assets and liabilities: changes in 2021/22

As at 31 March 2022, the Council held £1,682.8m of non-current assets, £246.1m of current assets, £203.8m of current liabilities and £1,251.7m of non-current liabilities.

Non-current assets have increased by £210.1m, primarily due to increase in the value of the Council's asset portfolio.

Current assets have increased by £37.7m, which includes the following significant items:

- An increase of £41.1m 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 a decrease of £15.4m; and
- A £12.0m increase in cash and cash equivalents.

The Council's current liabilities have increased by £22.1m, which includes the following:

- Cash and cash equivalents (overdrafts) have decreased by £9.5m;
- Short-term borrowing has decreased by £27.6m, reflecting the maturity profile of borrowing and use of prudential borrowing for the capital programme;
- An increase of £48.1m in short-term creditors mainly due to fluctuations in the amounts owed to public bodies;
- An increase of £9.8m in revenue grants received in advance and an increase of £1.5m in capital grants received in advance; and

Non-current liabilities have decreased by £133.2m, mainly reflecting a reduction in pension liabilities of £167.8m and an increase of £34.9m in non-current borrowing.

Workforce management and exit packages

The 2021/22 Statement of Accounts recognises a cost of £3.3m in relation to actual redundancies and other terminations in 2021/22, including expected redundancies in 2022/23 and 2023/24. There were 3 compulsory redundancies (0 in 2020/21), 67 voluntary redundancies (108 in 2020/21) and 12 other terminations (1 in 2020/21). 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 2021/22 totalled £3.08m. £2.95m of this expenditure was funded from a balance sheet provision and recognised in 2020/21, with the remaining expenditure of £0.13m being funded from revenue. In addition, as part of the 2021/22 revenue outturn, £1.27m was required to create a provision of £2.97m for redundancies in 2022/23 and 2023/24.

Pension liability

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

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

The net future pension liabilities in the Council's share of the relevant pension funds has been assessed by an independent actuary as £535.46m (from £629.64m in 2020/21, £703.30m including TGHC). The deficit on the Fund reduced by £167.84m, largely due to changes in financial assumptions. The Tyne and Wear Pension Fund is revalued every three years by an independent actuary to set future contribution rates. The most recent valuation, as at March 2019, assessed the funding value as 106%. Note 25 to the financial statements provides further details of the Council's pension disclosures.

The deficit at 31 March 2022 takes into account the national judgements on McCloud / Sargeant and the Guaranteed Minimum Pensions (GMP) (in relation to the first ruling).

Council's borrowing position

The Budget and Council Tax Level Report, approved by Council on 25 February 2021, details the 2021/22 borrowing limits for the Council.

The specific borrowing limits set relate to two of the prudential indicators that are required under the ff. The Council is required to set borrowing limits for the following three financial years. The limits for 2021/22 were as follows:

- Authorised limit for external debt of £865m
- 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 2021/22. The highest level of external debt incurred by the Council during the year was £670.572m.

Academy Conversions

During the financial year 2021/22, the Department for Education (DfE) entered into funding agreements with ten schools which have transferred to the Bishop Wilkinson Catholic Education Trust.

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

Significant Issues for 2022/23 and Beyond

Government Funding

The council received a one-year financial settlement for 2022/23. The Council to date has no further clarity on the changes being proposed to local government funding and any indicative settlement figures. The longer-term financial outlook continues to be uncertain until Fair Funding reform is concluded and the social care reforms and the outcome of the Fair Cost of Care exercise are complete. In addition, there are increasing demands and cost pressures that will need to be considered as part of the refresh of the MTFS which will be reported to Cabinet in October 2022.

Revenue budget 2022/23

Council agreed the revenue budget for 2022/23 at its meeting on 24 February 2022. This was set at £254.304m (excluding schools).

Capital Programme 2022/23

On 24 February 2022, the Council approved a capital programme of £146.7m for 2022/23, which included £22.3m of planned HRA capital investment. Capital investment can have a significant impact on the local economy within Gateshead to help people thrive with investment in schemes to encourage economic and housing growth over the period.

Economic Growth

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

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

Construction has commenced on the site enabling works with the main construction expected to commence in the 2022/23 financial year and is anticipated to open in the 2024/25 financial year, helping to generate significant economic growth and act as a catalyst for further development. The scheme is projected to deliver a £100m boost annually to the local economy, supporting over 2,000 jobs (including the construction phase) and attracting over £1 million visitors to the region annually helping to strengthen NewcastleGateshead's position as a world class location for events and business activity.

Welfare reform

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

COVID-19 has had an impact on the number of people migrating naturally to UC. Whilst the Government had paused the managed migration, roll out is set to start again with a number of pilot sites around the country identified and still with a deadline of 2024 for completion, the Department for Work and Pensions (DWP) are still looking to identify clients who would financially benefit from moving to Universal Credit with buy in from local authorities to facilitate this. The impact of this project is unknown and will be closely monitored once administration begins.

The removal of the £20 UC increase effect on household income was in the main offset by changes in the UC taper and other UC changes but any longer term impacts are yet to be seen as the cost of living crisis has now hit at the same time. Recovery of debts was also paused by the Government during the pandemic which has further impacted on the recovery of any sums owed and which are now significantly harder to recover.

There have been considerable changes in relation to the Council Tax Support (CTS) turnover in caseload over the year. However, the overall number has remained relatively static and the anticipated significant rise in claims has not materialised. This picture is comparable with neighbouring authorities. Despite the end of Furlough, there has not been a significant overall increase in CTS claims. However, an increase in new claims to CTS will increase the overall cost of the scheme. Demands on Discretionary Housing Payments (DHP) are also expected to rise as welfare support is being highlighted together with other measures to tackle the cost of living crisis. In addition, there are wider financial implications due to increased demand for Council welfare services as a result of the Government's changes, the COVID-19 pandemic and the cost of living crisis.

Housing Compliance

On 24 April 2019 the Council was issued with a Regulatory Notice from the Regulator of Social Housing outlining a breach of the Home standard. On 29 November 2019 the Council entered into a voluntary undertaking outlining the commitment to resolve the compliance issues raised and deliver better outcomes for residents. The Council worked closely with the Regulator to address weaknesses identified. An independent compliance audit reported in July 2021, highlighting clear areas of progress, but also areas where further work was required, such as data assurance for non-domestic assets. The Regulator of Social Housing withdrew its formal notice of a breach of the

Home Standard in November 2021. A key understanding with the Regulator is that the Council will continue with a robust governance schedule with all building safety and compliance transparently reported. Close monitoring continues in respect of outstanding recommendations and the Audit and Standards Committee continues to be informed of progress.

Adult Social Care Reform

In December 2021 the Government published the People at the Heart of Care Adult Social Care Reform White Paper. The Paper sets out a 10-year vision that puts personalised care and support at the heart of adult social care. It includes plans to fundamentally reform the funding and delivery of adult social care.

The primary aim of the charging reforms is to redistribute the financial responsibility for paying for an individual's care between the individual and the local authority. There are four key components: a cap on the amount any individual can spend on their personal care over a lifetime; a more generous system of means testing; a 'fair' cost of care will be established to support providers; and enactment of section 18(3) of the Care Act which will mean all individuals can ask the local authority to arrange their care. Over the next three years to 2024/25, £3.6 billion from the National Insurance Levy has been committed by Government to fund the implementation of the reforms. There are likely to be significant regional variations in relation to the impact of the reforms and the extent of the costs for each local authority is still to be determined.

The Market Sustainability and Fair Cost of Care Fund is one of the elements required by the White Paper. Local authorities are required to undertake a cost of care exercise for 65+ care homes and 18+ domiciliary care and submit to Government a provisional market sustainability plan using the cost of care input to identify risks in the local market. £1.4 billion of the £3.6 billion has been allocated to fund the impact of this.

The charging reforms are set to be introduced against a challenging backdrop. It is a time of significant change for health and social care systems not least the recovery from the pandemic, preparing for the introduction of assurance across adult social care; the implementation of new Liberty Protection Safeguards; the development of Integrated Care Systems; and preparing for the implications of the integration white paper outlined below.

There are concerns nationally regarding the increased workforce capacity required to deliver these reforms. The social care workforce is a challenged sector, and it is likely that additional capacity required in Local Authorities may have a negative impact on social care providers, for example support workers being recruited as assessing officers. In terms of qualified assessors, whilst the region has a vibrant social work training offer, there are issues in terms of recruiting experienced social workers and in light of assurance, significant concerns associated with having large numbers of newly qualified social workers in any one workforce.

Health and Social Care Integration

In February 2022 the Department of Health and Social Care (DHSC) published "Joining up care for people, places and populations", the government's proposals for health and care integration. It sets out the Government's plans to make integrated health and social care a reality for everyone across England and to level up access, experience and outcomes across the country. The focus of the document is at place level which is where local government and the NHS face a shared set of challenges at a scale that often works well for joint action.

Whilst children's social care is not directly within scope of the paper, places are encouraged to consider the integration between and within children and adult health and care services wherever possible.

Gateshead is in a strong position to deliver on the requirements of the White Paper through Gateshead Cares (our Health and Care System at Gateshead Place). In April 2021 an Alliance Agreement was developed and it is intended to facilitate further progress towards integrated commissioning and delivery of health and care services across Gateshead. In addition, joint posts have been put in place to further support the health and social care integration.

Strategic Risks for 2022/23

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

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

The Council's key strategic risks are:

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

The Statement of Accounts

The Statement of Accounts is set out on pages 23 to 85. The Statement covers the financial year from 1 April 2021 to 31 March 2022, 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 (p21) explains both the Council's and the Strategic Director, Resources and Digital responsibilities in respect of the Statement of Accounts.

Financial Statements (pages 23 to 85):

Movement in Reserves Statement (p23) shows the movement in the year across the different reserves held by the Council. 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 (p24) 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.

Balance Sheet (p25) shows the Council's financial position and net assets at the start and end of the financial year. It summarises the long-term and current assets that are used in carrying out the Council's activities, together with its liabilities.

Cash Flow Statement (p26 to 27) summarises the cash and cash equivalent receipts and payments of the Council arising from transactions with third parties.

Notes to the Financial Statements (p28 to 79) provide additional information for significant items to support the statements above.

Housing Revenue Account (HRA)

- **HRA Income and Expenditure Statement (p80)** covers the provision and maintenance of the Council's housing stock. There is a statutory requirement to produce this account, which separates housing from all other Council services.
- **Statement of Movement on the HRA Balance (p80)** shows how the HRA Income and Expenditure Statement surplus or deficit for the year reconciles to the movement in the HRA balance for the year.
- **Notes to the Housing Revenue Account (p81-83)** provide additional information to support the HRA statements.

Collection Fund

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

Documents Supporting the Statement of Accounts

Annual Governance Statement (p87 to 92), required by regulations to accompany the Statement of Accounts, outlines the Council's approach to corporate governance and internal control.

Independent Auditor's Report (p93) details the basis of the external auditor's opinion on the Statement of Accounts.

Glossary of Terms (p94 to 100) includes a description of the key terms used in the Statement of Accounts, along with explanations of any technical terms.

Contacts (p101) includes a list of key contacts regarding the Statement of Accounts.

Darren Collins
Strategic Director, Resources and Digital & Borough Treasurer

Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

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

The Strategic Director, Resources and Digital Responsibilities

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

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

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

The Strategic Director, Resources and Digital has also:

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

Chief Finance Officer's Certificate

I hereby certify that the Statement of Accounts for the year ended 31 March 2022, required by the Accounts and Audit Regulations 2015 are set out in the following pages.

I further certify that the Statement of Accounts give a true and fair view of the financial position of the Council at 31 March 2022 and of its income and expenditure for the year ended 31 March 2022.

Signed: Date: 27 October 2022

Darren Collins
Strategic Director, Resources and Digital & Borough Treasurer

Part 2: Financial Statements

Movement in Reserves Statement

	Note	General Fund Balance	Earmarked GF Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Gateshead usable reserve	Gateshead unusable reserves	Total Gateshead reserves
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance as at 31 March 2020	**6b**	**16,537**	**43,391**	**31,682**	**0**	**12,033**	**17,766**	**121,409**	**97,631**	**219,040**
Movement in reserves during the year										
Total comprehensive income and (expenditure)		(30,956)	0	(10,830)	0	0	0	(41,786)	(67,705)	(109,491)
Adjustments between accounting basis and funding basis under regulations	**6a**	37,298	44,438	10,507	0	(663)	(12,729)	78,851	(73,941)	4,910
Increase or (decrease) in year		**6,342**	**44,438**	**(323)**	**0**	**(663)**	**(12,729)**	**37,065**	**(141,646)**	(104,581)
Balance as at 31 March 2021	**6b**	**22,879**	**87,829**	**31,359**	**0**	**11,370**	**5,037**	**158,474**	**(44,015)**	**114,459**
Movement in reserves during the year										
Total comprehensive income and (expenditure)		(44,385)	0	5,642	0	0	0	(38,743)	397,667	358,924
Adjustments between accounting basis and funding basis under regulations	**6a**	38,952	(3,258)	(10,840)	0	1,267	1,917	28,038	(28,038)	0
Increase or (decrease) in year		**(5,433)**	**(3,258)**	**(5,198)**	**0**	**1,267**	**1,917**	**(10,705)**	**369,629**	**358,924**
Balance as at 31 March 2022	**6b**	**17,446**	**84,571**	**26,160**	**0**	**12,637**	**6,954**	**147,769**	**325,614**	**473,383**

Comprehensive Income and Expenditure Statement

2020/21				2021/22			
Gross Exp. £000s	Gross Income £000s	Net Exp. £000s	Service	Gross Exp. £000s	Gross Income £000s	Net Exp. £000s	Notes
228,570	(120,759)	107,811	Children, Adults and Families	233,480	(125,707)	107,773	
10,373	(2,128)	8,245	Corporate Services and Governance & Office of the Chief Executive	13,157	(3,558)	9,599	
38,992	(12,175)	26,817	Economy, Innovation and Growth	23,596	(10,517)	13,079	
66,225	(33,614)	32,611	Housing, Environment and Healthy Communities	103,799	(49,486)	54,313	
16,389	(12,039)	4,350	Other Corporate Income and Expenditure	19,393	(7,070)	12,323	
27,427	(23,195)	4,232	Public Health and Wellbeing	28,554	(23,693)	4,861	
78,049	(61,867)	16,182	Resources & Digital (including Housing Benefits)	78,093	(61,079)	17,014	
89,249	(91,937)	(2,688)	Schools	94,056	(90,359)	3,697	
76,571	(79,260)	(2,689)	Housing Revenue Account	63,964	(81,273)	(17,309)	
631,845	**(436,974)**	**194,871**	**Cost of services**	**658,092**	**(452,742)**	**205,350**	
		13,091	Other operating expenditure			13,530	7b
		40,422	Financing and investment income & expenditure			41,378	7b
		(206,598)	Taxation and non-specific grant income			(221,515)	7b
		41,786	**(Surplus) or deficit on provision of services**			**38,743**	
		(25,936)	(Surplus) or deficit on revaluation of non-current assets			(171,116)	17
		89,330	Re-measurements of the net defined benefit liability			(223,300)	25
		(599)	(Surplus) or deficit on financial assets measured at fair value through other comprehensive income			(3,251)	26
		0	Other gains/losses			0	
		62,795	**Other comprehensive (income) and expenditure**			**(397,667)**	
		104,581	**Total comprehensive (income) and expenditure**			**(358,924)**	

Please note all amounts included above relate to continuing operations

Balance Sheet

(Restated) 31/03/21 £000s		Gateshead 31/03/22 £000s	Notes
1,403,496	Property, plant & equipment	1,605,451	17
27,709	Heritage assets	28,575	18
833	Investment property	171	
3,438	Intangible assets	4,390	
9,194	Non-current investments	12,445	26
28,073	Non-current debtors	31,813	22
1,472,743	**Non-current assets**	**1,682,845**	
75,023	Current investments	116,118	26
1,553	Assets held for sale	971	
1,644	Inventories	2,199	
114,024	Current debtors	98,648	22
16,093	Cash and cash equivalents	28,128	21
208,337	**Current assets**	**246,064**	
(20,888)	Cash and cash equivalents	(11,363)	21
(44,375)	Current borrowing	(16,823)	26
(8,973)	Current provisions	(8,670)	24
(16,302)	Revenue Grants Received in Advance	(26,109)	10
(5,547)	Capital Grants Received in Advance	(7,076)	10
(85,626)	Current creditors	(133,736)	23
(181,711)	**Current liabilities**	**(203,777)**	
(54,372)	Non-current creditors	(51,955)	23
(7,183)	Non-current provisions	(9,368)	24
(620,071)	Non-current borrowing	(654,966)	26
(703,300)	Pensions liability	(535,460)	25
(1,384,926)	**Non-current liabilities**	**(1,251,749)**	
114,443	**Net assets**	**473,383**	
	Usable reserves:		
11,370	Capital Receipts Reserve	12,636	
5,037	Capital Grants Unapplied	6,954	
13,967	General Fund - General Reserve	8,500	
8,912	General Fund - LMS Reserve	8,946	
31,358	Housing Revenue Account	26,160	
87,829	Earmarked Reserves	84,570	
158,473	**Total usable reserves**	**147,766**	
(44,030)	**Unusable reserves**	**325,617**	
114,443	**Total reserves**	**473,383**	6b

Signed: Date: 27 October 2022

Darren Collins
Strategic Director, Resources and Digital & Borough Treasurer

Cash Flow Statement

2020/21 £000s (Restated)		2021/22 £000s
42,210	**Net (surplus) or deficit on the provision of services**	**36,275**
	Adjustments to net surplus or deficit on the provision of service for non-cash movements:	
(47,718)	Depreciation of non-current assets	(49,849)
(34,159)	Impairment / revaluation of non-current assets	3,301
(1,373)	Amortisation of intangible non-current assets	(1,121)
(30,534)	Pension adjustments	(55,460)
(906)	(Increase)/decrease in impairment allowance	909
(4,468)	Contributions (to) / from provisions	(1,882)
(3,490)	Carrying amount of property, plant and equipment, investment property, assets held for sale and intangible assets sold	(7,063)
(202)	(Decrease)/increase in inventories	555
40,646	(Decrease)/increase in debtors	(10,144)
(28,551)	Decrease/(increase) in creditors	(54,685)
477	Decrease/(increase) in valuation of financial instruments	476
0	Other non-cash movement	(2)
(110,278)		**(174,965)**
	Adjustments for items included in the net surplus or deficit on the provision of service that are investing or financing activities:	
3,748	Proceeds from the disposal of PPE, investment property, assets held for sale and intangible assets	6,958
18,050	Capital grants credited to surplus or deficit on the provision of services	29,910
(833)	Any other items for which the cash effects are investing or financing activities	(703)
20,965		**36,165**
(47,103)	**Net cash flows from operating activities**	**(102,525)**

2020/21 £000s		2021/22 £000s
Group		
	Net cash flows from investing activities:	
63,124	Purchase of property, plant and equipment, investment property, assets held for sale and intangible assets	83,070
653,229	Purchase of short term and long term investments	382,500
0	Other payments for investing activities	0
(3,314)	Proceeds from the sale of property, plant and equipment, investment property, assets held for sale and intangible assets	(6,958)
(625,305)	Proceeds from the sale of short term and long term investments	(341,402)
0	Other receipts for investing activities	0
87,734	**Net cash flows from investing activities**	**117,210**
	Net cash flows from financing activities:	
(4,500)	Cash receipts of short and long term borrowing (see Note 27)	(40,000)
3,021	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on Balance Sheet PFI contracts	3,171
(22,098)	Capital grants received (government)	(30,311)
40,554	Repayment of short and long term borrowings (see Note 27)	32,612
(3,962)	Other payments/receipts for financing activities	(1,717)
13,015	**Net cash flows from financing activities**	**(36,245)**
53,646	**Net (increase)/ decrease in cash and cash equivalents**	**(21,560)**

48,851	**Cash and cash equivalents at the beginning of the period**	**(4,795)**
(4,795)	**Cash and cash equivalents at the end of the period**	**16,765**

	Balance of Cash and cash equivalents	
16,093	Current Assets	**28,128**
(20,888)	Current Liabilities	(11,363)
(4,795)	**Cash and cash equivalents at the end of the period** (see Note 21)	**16,765**

Notes to the Financial Statements

1. Significant Accounting Policies

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

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

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

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

2. Critical judgements in applying accounting policies

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

- **Leases:** determination as to whether lease arrangements are finance or operating leases;
- **PFI:** a determination as to whether PFI assets and liabilities are on- or off-Balance Sheet;
- **Provisions, contingent liabilities and contingent assets:** an assessment of future liabilities and assets that may constitute provisions, contingent liabilities or contingent assets; and
- **Future government funding:** Council assets may be impaired as a result of the potential need to close facilities / reduce levels of service provision.

3. Events after the Balance Sheet date

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

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

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

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

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

The new/amended standards that may affect the Statement of Accounts from 1 April 2022 and require retrospective application are:

- Annual improvements to IFRS Standards 2018-2020. Amendments to IAS37 and IAS16
- Property, Plant and Equipment; amendment to IAS16

These changes are not expected to have a material impact on the 2021/22 accounts.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2022 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- **Pension liabilities:** estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. The Council's net liability includes a share of the overall Pension Fund investment assets. Further details and sensitivities are included in Note 25.
- **Revaluations:** assets are valued in accordance with Royal Institute of Chartered Surveyors (RICS) valuation standards and involve the use of a number of estimation techniques including various property indices. A 1% change in asset valuation would equate to a £13.7m, which would represent a material movement - as such, this presents a significant risk of misstatement. To manage this risk, assets valued at more than £40,000 are subject to the Council's three-yearly rolling programme of revaluations. To ensure that there is no possibility of material changes in value and to provide additional assurance following the economic uncertainty caused by the ongoing global pandemic, Brexit and war in Ukraine, a review of market conditions (including reviews at the year-end) for all asset categories was undertaken to ensure that the value of assets as at 31 March was not materially misstated.
- **Changes to Council Dwellings asset groupings:** See Note 17 Property, plant and equipment, detailing a change in estimated beacon valuation used for Council Dwellings which has resulted in an increase in value of £130.9m.

6. Movement in Reserves Statement adjustments

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

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

The following tables provide further detail of the amounts disclosed in the Movement in Reserves Statement:

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:

2021/22 movements (£000s)	**General Fund**	**Earmarked reserves**	**Housing Revenue Account**	**Major Repairs Reserve**	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Unusable Reserves**
Charges for depreciation of non-current assets	33,186	0	0	16,663	0	0	*(49,849)
Impairment and revaluation losses (charged to *surplus or deficit on provision of services*) of non-current assets	7,831	0	(11,132)	0	0	0	*3,301
Capital grants and contributions credited to the CIES	(28,402)	0	(1,508)	0	0	4,663	*25,247
Net gain or loss on sale of non-current assets	781	0	(676)	0	6,958	0	∞ (7,063)
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	48,480	0	6,980	0	0	0	≠ (55,460)
Amount by which council tax income and business rate income included in the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with regulation.	(13,961)						≈13,961
Minimum Revenue Provision	(20,163)	0	0	0	0	0	*20,163
Capital expenditure charged to the General Fund / HRA	(1,563)	0	(4,512)	4,512	0	0	*1,563
Transfers to/from earmarked reserves	3,006	(3,258)	0	0	0	0	**252
Other transfers to/from reserves required by legislation	9,757	0	8	(21,175)	(5,691)	(2,746)	Ω 19,847
Adjustments between accounting basis and funding basis under regulations	**38,952**	**(3,258)**	**(10,840)**	**0**	**1,267**	**1,917**	**(28,038)**

* All charged to Capital Adjustment Account
∞ (1,507) to Revaluation Reserve and (5,556) to Capital Adjustment Account
≠all charged to Pension Reserve
Ω includes 29,156 to Capital Adjustment Account
≈All charged to the Collection Fund Adjustment Account
**charged to the Financial Instrument Revaluation Reserve

	General Fund	Earmarked reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
2020/21 movements (£000s)							
Charges for depreciation of non-current assets	32,473	0	0	15,083	0	0	* (47,556)
Impairment and revaluation losses (charged to *surplus or deficit on provision of services*) of non-current assets	24,584	0	9,575	0	0	0	* (34,159)
Capital grants and contributions credited to the CIES	(18,050)	0	0	0	0	2,364	*15,686
Net gain or loss on sale of non-current assets	560	0	(298)	0	3,229	0	∞ (3,491)
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	25,368	0	5,182	0	0	0	≠ (30,550)
Amount by which council tax income and business rate income included in the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with regulation.	27,487						≈(27,487)
Minimum Revenue Provision	(17,559)	0	0	0	0	0	**17,559
Capital expenditure charged to the General Fund / HRA	(2,462)	0	(3,529)	3,529	0	0	*2,462
Transfers to/from earmarked reserves	(44,438)	44,438	0	0	0	0	0
Other transfers to/from reserves required by legislation	9,335	0	(423)	(18,612)	(3,892)	(15,093)	28,685
Adjustments between accounting basis and funding basis under regulations	**37,298**	**44,438**	**10,507**	**0**	**(663)**	**(12,729)**	**(78,851)**

* All charged to Capital Adjustment Account
∞(608) to Revaluation Reserve and (2,885) to Capital Adjustment Account
≠all charged to Pension Reserve
Ω includes 33,970 to Capital Adjustment Account
≈All charged to the Collection Fund 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 31/03/21 £000s		Transfers in £000s	Transfers out £000s	Balance 31/03/22 £000s
(Restated)	**Usable reserves**			
	General Fund balance:			
13,967	General Reserve	433	(5,900)	8,500
8,912	LMS Budget Share Reserve	34	0	8,946
22,879	**General Fund**	**467**	**(5,900)**	**17,446**
	Earmarked General Fund reserves:			
14,329	Financial Risk and Resilience	326	(5,261)	9,394
7,823	Economic, Housing and Environmental Investment	0	(7,823)	0
6,892	Poverty, Health and Equality Investment	0	(6,892)	0
0	Thrive	10,770	(2,326)	8,444
5,000	Budget Sustainability	15,015	0	20,015
17,991	Pandemic Services Impact	7,589	0	25,580
28,239	Pandemic Impact Collection Fund	11,191	(26,564)	12,866
2,131	Developers' contributions	1,019	(1,131)	2,019
1,311	Unapplied revenue grants	170	(91)	1,390
1,872	Public health	1,082	(347)	2,607
2,241	Dedicated Schools Grant (DSG)	14	0	2,255
87,829	**Total earmarked General Fund reserves**	**47,176**	**(50,435)**	**84,570**
31,358	Housing Revenue Account (HRA) balance		(5,198)	26,160
	Earmarked HRA reserves:			
0	Major Repairs Reserve	21,175	(21,175)	0
11,370	Capital Receipts Reserve	6,958	(5,692)	12,636
5,037	Capital Grants Unapplied	4,663	(2,746)	6,954
158,473	**Total usable reserves**	**80,439**	**(91,146)**	**147,766**
	Unusable reserves			
231,488	Revaluation Reserve	171,193	(8,901)	393,780
463,693	Capital Adjustment Account	84,684	(63,109)	485,268
(18,326)	Financial Instrument Adjustment Account	476	0	(17,850)
8,943	Financial Instrument Revaluation Reserve	3,503	0	12,446
76	Deferred Capital Receipts Reserve	0	0	76
(23,840)	Collection Fund Adjustment Account	44,317	(30,356)	(9,879)
(2,764)	Accumulated Absences Account		0	(2,764)
(703,300)	Pensions Reserve	223,300	(55,460)	(535,460)
(44,030)	**Total unusable reserves**	**527,473**	**(157,826)**	**325,617**
114,443	**Total reserves of the Council**	**607,912**	**(248,972)**	**473,383**
n/a	P&L Reserve - TGHC			n/a
n/a	Pensions Reserve - TGHC			n/a
n/a	Accumulated Absences Account			n/a
n/a	**Total reserves of the Group**			**n/a**

Usable Reserves

On 19 October 2021, a review of reserves was undertaken as part of the refresh of the Medium Term Financial Strategy (MTFS). Reserves were realigned to supplement the Budget Sustainability Reserve creating £20m in funds to support a planned approach to achieve a balanced financial position over the next three years.

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

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

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

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

- **Financial risk and resilience:** this reserve was created to set aside funds in respect of key financial risks identified through risk management such as the risks in relation to business rates, insurance, grant clawback and budget flexibility.
- **Economic, housing and environmental investment:** this reserve was removed as part of the review of reserves.
- **Poverty, health and equality investment:** this reserve was removed as part of the review of reserves.
- **Thrive:** this reserve was created as part of the review of reserves in the MTFS and replaces the Economic Housing and Environment and Poverty Health and Equality reserves to support key Council priorities.
- **Budget Sustainability** This reserve is to help support the timings of achieving significant budget savings. This reserve was increased as part of the refresh of the MTFS to support the three-year approach to the budget.
- **Pandemic Services Impact:** funding to mitigate pandemic impacts in 2021/22 and beyond.
- **Pandemic Impact Collection Fund:** funding to mitigate the deficit in the collection fund in relation to council tax and business rates in 2021/22 and beyond.
- **Developers' contributions:** this reserve consists of developer contributions in respect of agreed regeneration schemes following Section 38 and 106 agreements. The movement on the reserve will fluctuate depending on the use of the contributions to support regeneration schemes such as play areas in areas of new housing.
- **Unapplied revenue grants:** this reserve was created as a result of changes to the Accounting Code of Practice whereby unused grants and contributions, without conditions attached, should be appropriated to reserves to fund future expenditure rather than creating creditors on the Balance Sheet. The reserve represents an accounting treatment.
- **Public health:** the responsibility for Public Health transferred to local authorities on the 1 April 2013. The funding is ring-fenced for future Public Health use.
- **Dedicated schools grant (DSG):** this reserve is ring-fenced for schools use and cannot be used for other priorities within the Council. Use of this reserve will be agreed by Schools Forum.

The **Capital Receipts Reserve** holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance

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

historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end use, and may be earmarked for use in the Council's capital programme.

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

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

Unusable Reserves

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

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

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

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

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

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

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

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

The **Collection Fund Adjustment Account** manages the differences arising from the recognition of council tax income and business rates 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 2022. Statutory arrangements require that the impact on the General Fund is neutralised by transfers to/from the account. This includes the balance transferred from the former Gateshead Housing Company under merger accounting principles.

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

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

7. Comprehensive Income and Expenditure Statement (CIES) information

a. Key accounting policies:

Accruals of income and expenditure

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

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)

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

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

b. Analysis of items below Cost of Services

2020/21 £000s		2021/22 £000s
	Other operating expenditure	
262	(Gains) / losses on the disposal of non-current assets	105
	Precepts and levies:	
170	Environment Agency levy	174
22	Tyne Port Health Authority precept	22
10,888	North East Combined Authority levy	10,603
12	Lamesley Parish Council precept	12
1,737	Payments to the housing capital receipts pool	2,614
13,091		**13,530**
	Financing and investment income and expenditure	
27,512	Interest payable and similar charges	26,759
13,080	Net interest on defined benefit liability / (asset)	14,570
(2,236)	Interest receivable and similar income	(2,316)
2,066	(Surpluses) / deficits on trading activities	2,365
40,422		**41,378**
	Taxation and non-specific grant income	
(95,460)	Council tax income	(100,745)
(75,498)	Government grants not attributable to services	(57,824)
(18,050)	Capital grants and contributions	(29,910)
(17,590)	Business rates retained	(33,036)
(206,598)		**(221,515)**

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:

- £49.849m depreciation - see Notes 6a, 17 and HRA Notes 5 and 6;
- £3.301m revaluation gain - see Notes 6a, 17 and HRA Notes 5 and 6;
- (£63.18m) pensions charges to the CIES (funded and unfunded) – see Note 25;
- £17.5m of specific COVID-19 funding.

8. Expenditure and funding analysis

The Expenditure and funding analysis objective 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 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:

2020/21				2021/22		
Net expenditure chargeable to the General Fund / HRA	Adjustments between funding and accounting basis‡	**Net expenditure in the CIES**		Net expenditure chargeable to the General Fund / HRA	Adjustments between funding and accounting basis‡	**Net expenditure in the CIES**
£000s	**£000s**	**£000s**		**£000s**	**£000s**	**£000s**
108,927	(1,116)	107,811	Children, Adults and Families	118,108	(10,334)	107,774
6,161	2,083	8,244	Corporate Services and Governance and Office of the Chief Executive	6,271	3,329	9,600
2,730	24,087	26,818	Economy, Innovation and Growth	3,190	9,888	13,078
19,825	12,786	32,611	Housing, Environment and Healthy Communities	21,090	33,224	54,314
324	(3,012)	(2,688)	Local authority housing (HRA)	5,197	(22,508)	(17,311)
8,960	(4,610)	4,350	Other Corporate Income and Expenditure	9,352	2,972	12,324
20,880	(16,647)	4,232	Public Health and Wellbeing	20,293	(15,432)	4,861
5,766	10,416	16,182	Resources and Digital	10,086	6,927	17,013
(3,433)	745	(2,688)	Schools	(31)	3,729	3,698
170,140	**24,732**	**194,872**	**Net Cost of Services**	**193,556**	**11,795**	**205,351**
5,000	(5,000)	0	Review of Strategic Reserves	5,900	(5,900)	0
(181,157)	28,072	(153,085)	Other income and expenditure	(188,822)	22,217	(166,605)
(6,017)	Ω **47,804**	**41,787**	**(Surplus) / Deficit**	**10,634**	**28,112**	**38,746**
		48,219	**Opening General Fund and HRA balance**	**54,237**		
		$6,017	+/- surplus/(deficit) on General Fund and HRA balance	(10,635)		
		54,237	**Closing General Fund and HRA balance**	**43,602**		

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

2020/21					2021/22			
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
18,645	5,312	(25,074)	(1,117)	Children, Adults and Families	5,990	10,360	(26,684)	(10,334)
0	769	1,315	2,084	Corporate Services and Governance and Office of the Chief Executive	0	1,639	1,690	3,329
19,794	1,241	3,052	24,087	Economy, Innovation and Growth	5,844	2,345	1,699	9,888
13,142	1,617	(1,974)	12,785	Housing, Environment and Healthy Communities	29,930	3,698	(404)	33,224
(6,540)	3,528	0	(3,012)	Local authority housing (HRA)	(27,600)	5,092	0	(22,508)
(1,010)	1,091	(4,691)	(4,610)	Other Corporate Income and Expenditure	(519)	7,639	(4,148)	2,972
1,992	947	(19,587)	(16,648)	Public Health and Wellbeing	2,427	1,676	(19,535)	(15,432)
8,283	1,533	600	10,416	Resources and Digital	1,597	2,890	2,440	6,927
(312)	(526)	1,583	745	Schools	(173)	1,746	2,156	3,729
53,994	**15,512**	**(44,776)**	**24,730**	**Net Cost of Services**	**17,496**	**37,085**	**(42,786)**	**11,795**
(19,351)	14,614	32,810	28,073	Other income and expenditure from the Expenditure and Funding Analysis	(33,873)	18,376	37,714	22,217
0	0	(5,000)	(5,000)	Review of strategic Reserves	0	0	(5,900)	(5,900)
34,643	**30,126**	**(16,966)**	**47,803**	**Difference between General Fund surplus or deficit and CIES (surplus) / deficit on the Provision of Services**	**(16,377)**	**55,461**	**(10,972)**	**28,112**

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.

2020/21 £000s		2021/22 £000s
	Expenditure	
224,931	Employee expenses	257,440
74,609	Other Services	103,314
242,001	Third party and transfer payments	259,419
7,903	Support service recharge	8,624
76,552	Depreciation, amortisation and impairment and interest payable	48,076
11,092	Precepts and Levies	10,812
637,088		**687,685**
(2,687)	Housing Revenue Account (HRA)	(17,310)
	Income	
(331,697)	Government grants and contributions	(314,312)
(60,100)	Other grants, reimbursements and contributions	(58,413)
(54,603)	Fees, charges and other service income	(65,650)
(2,208)	Interest and investment income	(2,192)
(30,955)	Recharges	(57,283)
(113,050)	Income from council tax and business rates	(133,781)
(592,613)		**(631,631)**
41,788	**(Surplus) or Deficit on the Provision of Services**	**38,744**

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

2020/21 £000s		2021/22 £000s
	Fees, charges and other service income by segment	
(16,532)	Children, Adults and Families	(19,046)
(19,497)	Housing, Environment and Healthy Communities	(27,885)
(10,397)	Economy, Innovation and Growth	(7,872)
(484)	Public Health and Wellbeing	(2,440)
(3,667)	Resources & Digital	(3,652)
(1,734)	Corporate Services & Governance and Office of the Chief Executive	(1,808)
(819)	Other Corporate Income	(191)
(1,473)	Schools	(2,756)
(54,603)	**Total**	**(65,650)**

9. Dedicated Schools Grant

The council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency (ESFA), the Dedicated Schools Grant (DSG). The DSG is ringfenced and can only be applied to meet expenditure properly included in the schools budget, as defined in the School Finance and Early Years (England) Regulations 2021. The schools budget includes elements for a range of educational services provided on an authority-wide basis and for the individual schools budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2021/22 are as follows:

	Central expenditure £000s	ISB £000s	Total £000s
Final DSG for 2021/22 before academy and high needs recoupment	31,524	136,011	167,535
Academy and high needs figure recouped for 2021/22	(623)	(60,270)	(60,893)
Total DSG after academy and high needs recoupment for 2021/22	**30,901**	**75,741**	**106,642**
Plus: brought forward from 2020/21	1,302	939	2,241
Less: carry-forward to 2022/23 agreed in advance	0	0	0
Agreed initial budgeted distribution in 2021/22	**32,203**	**76,680**	**108,883**
In-year adjustments	(231)	0	(231)
Final budgeted distribution in 2021/22	**31,972**	**76,680**	**108,652**
Less: actual central expenditure	(30,261)		(30,261)
Less: actual ISB deployed to schools		(76,136)	(76,136)
Plus: local authority contribution for 2021/22	0	0	0
In year Carry-forward to 2022/23	1,711	544	2,255
Plus: Carry-forward to 2022/23 agreed in advance	0	0	0
Carry-forward to 2022/23	**1,711**	**544**	**2,255**

A comparator table for the previous year is shown below:

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

10. Government and non-government grants

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as Grants Received in Advance. 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 £0.879m in 2021/22 (£0.938m in 2020/21).

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

2020/21 £000s		2021/22 £000s
	a) General government grants not attributable to Services	
(30,611)	Revenue Support and Top Up Grant	(30,696)
(44,886)	Other Grants	(27,129)
(75,497)		**(57,825)**
	b) Specific government grants attributable to Services	
(31,062)	Department for Levelling Up, Housing and Communities	(30,415)
(127,063)	Department for Education	(128,667)
(55,937)	Department for Work and Pensions	(55,405)
(16,541)	Department for Health and Social Care	(16,755)
(25,597)	Joint / other	(25,248)
(256,200)		**(256,490)**
	c) Capital grant income not attributable to Services	
(2,214)	Department for Levelling Up, Housing and Communities	(8,141)
(2,624)	Department for Education	(3,789)
0	European Regional Development Fund	0
(9,684)	Other government grants	(17,437)
(181)	Other non-government grants	(15)
(2,034)	Other non-government contributions	(528)
(16,737)		**(29,910)**
(348,434)	**Total grants and government contributions**	**(344,225)**
	d) Other contributions and donations	
(60,100)	Other revenue contributions attributable to Services	(58,413)
0	Other capital contributions not attributable to Services	0
(1,313)	Donated assets not attributable to Services	0
(61,413)	**Total other contributions**	**(58,413)**

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

Current Liabilities

31/03/21 £000s		31/03/22 £000s
	Grant Receipts in Advance (Revenue Grants)	
(16,093)	Other Grants	(25,618)
0	Council Tax Energy Rebate DCLG Grant	(448)
(68)	DCLG Estate Regeneration Funding	(25)
(141)	Reward Grant (Job Centre Plus)	(18)
(16,302)	**Total**	**(26,109)**

31/03/21 £000s		31/03/22 £000s
	Grant Receipts in Advance (Capital Grants)	
(20)	Section 106 Contributions from Private Developers - Town and Country Planning Act 1990	(20)
(246)	Homes England	(421)
(4,538)	Public Sector Decarbonisation Scheme BEIS	(6,255)
(743)	Section 38 and 278 Contributions from Private Developers for Public Highways	(380)
(5,547)	**Total**	**(7,076)**

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 land, 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:

	31/03/21 £000s	31/03/22 £000s
Not later than one year	4,314	4,418
Later than one year and not later than five years	12,393	12,513
Later than five years	143,383	142,673
	160,090	**159,604**

12. Councillors' allowances and expenses

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

2020/21 Restated £000s		2021/22 £000s
778	Basic allowance	810
406	Special responsibility allowance	440
0	Other allowances and expenses	0
1,184	**Total**	**1,250**

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

13. External audit costs

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

2020/21 £000s		2021/22 £000s
110*	Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year (Mazars LLP)	110
18	Fees payable in respect of other services provided by Mazars LLP during the year	18
128	**Total Council costs**	**128**
40	Fees payable to external auditors with regard to external audit services for TGHC (KPMG LLP)	n/a
168	**Total costs**	**128**

*In addition to the audit fees shown above, there was an additional audit fee of £59,070 in respect of the 2020/21 external audit.

14. Officers' remuneration

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

Remuneration of senior employees 2021/22						
Post holder information	Salary, fees & allowances	Returning Officer Fees *	Loss of Employment Costs	Non-cash benefits	Pension contribution	**Total**
	£	£	£	£	£	**£**
Gateshead						
Chief Executive, S Ramsey	175,226	14,842*	0	0	30,358	**220,426**
Strategic Director, Resources and Digital	124,600	0	0	0	23,549	**148,149**
Strategic Director, Housing, Environment and Healthy Communities	137,032	0	0	0	26,007	**163,039**
Strategic Director, Economy, Innovation and Growth	124,600	0	0	0	23,777	**148,377**
Strategic Director, Corporate Services and Governance	124,600	0	0	0	23,549	**148,149**
Strategic Director, Children, Adults and Families	143,290	0	0	0	27,082	**170,372**
Director of Public Health	112,861	0	0	0	16,229	**129,090**
	942,209	**14,842**	**0**	**0**	**170,551**	**1,127,602**

* Returning Officer fees for local elections, and PCC elections

Remuneration of senior employees 2020/21						
Post holder information	Salary, fees & allowances	Expenses allowances	Loss of Employment Costs	Non-cash benefits	Pension contribution	**Total**
	£	£	£	£	£	**£**
Gateshead						
Chief Executive, S Ramsey	172,636	0	0	0	0	**172,636**
Strategic Director, Resources and Digital	122,758	0	0	0	23,201	**145,959**
Strategic Director, Housing, Environment and Healthy Communities	122,758	0	0	0	24,088	**146,846**
Strategic Director, Economy, Innovation and Growth (Acting into role from 01 Nov 2019, appointed 05 Mar 2020)	122,271	0	0	0	23,338	**145,609**
Strategic Director, Corporate Services and Governance	122,758	0	0	0	23,201	**145,959**
Strategic Director, Children, Adults and Families	141,172	0	0	0	26,681	**167,853**
Director of Public Health	105,668	0	0	0	15,195	**120,863**
	910,021	**0**	**0**	**0**	**135,704**	**1,045,725**
TGHC						
Managing Director (interim), N Bouch	122,758	0	0	0	20,623	**143,381**
	122,758	**0**	**0**	**0**	**20,623**	**143,381**

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 2021/22 to indicate the cost impact on senior staff:

Council	Number of Employees			
	Incl. redundancies		Excl. redundancies	
	2020/21	2021/22	2020/21	2021/22
£50,000 - £54,999	82	104	80	103
£55,000 - £59,999	37	64	36	62
£60,000 - £64,999	29	25	29	23
£65,000 - £69,999	19	21	19	21
£70,000 - £74,999	18	11	17	11
£75,000 - £79,999	4	8	4	8
£80,000 - £84,999	7	6	7	6
£85,000 - £89,999	3	1	3	1
£90,000 - £94,999	5	3	5	3
£95,000 - £99,999	0	2	0	2
£100,000 - £104,999	6	9	6	9
£105,000 - £109,999	0	0	0	0
£110,000 - £114,999	0	0	0	0
£115,000 - £119,999	0	1	0	1
£120,000 - £124,999	0	0	0	0
£125,000 - £129,999	0	0	0	0
£130,000 - £134,999	0	0	0	0
£135,000 - £139,999	0	0	0	0
£140,000 - £144,999	0	0	0	0
£145,000 - £149,999	0	0	0	0
£150,000 - £154,999	0	0	0	0

Termination benefits / Exit packages

The 2021/22 Statement of Accounts recognises a cost of £3.3m in relation to actual redundancies and other terminations in 2021/22, including 62 (£2.966m) expected redundancies in 2022/23. There were 3 compulsory redundancies (0 in 2020/21), 67 (this includes 62 expected in relation to 2022/23) voluntary redundancies (108 in 2020/21) and 12 other terminations (1 in 2020/21). 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 2021/22 totalled £3.08m. £2.95m of this expenditure was funded from a balance sheet provision and recognised in 2020/21, with the remaining expenditure of £0.13m being funded from revenue. In addition, as part of the 2021/22 revenue outturn, £1.27m was required to create a provision of £2.97m for redundancies in 2022/23.

2020/21					Exit package cost band	2021/22				
Number				Cost		Number				Cost
CRs	VRs	Other	Total	£000s		CRs	VRs	Other	Total	£000s
0	3	1	4	41	£0 - £20,000	3	3	10	16	136
0	1	0	1	29	£20,001 - £40,000	0	1	1	2	66
0	104	0	104	4,644	£40,001 - £60,000	0	63	1	64	3,063
0	0	0	0	0	£60,001 - £80,000	0	0	0	0	0
0	0	0	0	0	£80,001 - £100,000	0	0	0	0	0
0	0	0	0	0	£100,001 - £150,000	0	0	0	0	0
0	0	0	0	0	£150,001 - £200,000	0	0	0	0	0
0	**108**	**1**	**109**	**4,714**	**Total**	**3**	**67**	**12**	**82**	**3,265**

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 2021/22 is shown in Note 12. During 2021/22, no works or services were commissioned from companies in which Councillors had an interest, and the Council entered into no significant related party transactions with Councillors. Details of Councillors' interests are recorded in the Register of Councillors' Interests (updated annually); open to public inspection at the Civic Centre during office hours.

During 2021/22, no related party transactions were entered into with senior officers or their close family members.

Joint arrangements and associates

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

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

Entities controlled or significantly influenced by the Council

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

At present, it is not felt that the values or nature of the 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 4 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 16 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 £11.661m (£8.410m in 2020/21). This is currently subject to a revaluation exercise. The shares are not held for trading outside of the LA7.

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially impair the valuation. The spread of COVID-19 across the world towards the end of 2019/20 led to a sudden decline in air travel prompting the value of the shareholding to be impaired. This continued throughout 2020/21 but subsequent vaccine rollout and a lifting of restrictions has seen the travel sector experience a resurgence in passenger numbers. As a result, the majority of the impairment recognised has been reversed.

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 December 2021 (nil for the year ended 31 December 2020).

Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012/13, issuing £67.665m shareholder loan notes of which £12.023m is provided by the Council (£10.290m in 2020/21). The loan notes will be repayable in 2032 with interest normally being received up to that date on a six monthly basis.

Due to major curtailments in the airport operations as a result of the Covid-19 pandemic the Council has agreed to modify the terms of these loans and has accepted that under the unprecedented circumstances the airport can defer interest repayments for the following four years (three and a half years in 2020/21) with catch up payments

to be made in instalments over a later period. Under the loan agreement the Council is entitled to compound interest for any late payments and this has been factored into the repayments the airport will make once the catch up payments commence. This has resulted in a further restatement of the loan value with a cumulative modification loss of £0.703m (£0.833m in 2020/21) being recognised. The decrease in loss recognised is credited to the financing and investment income and expenditure line of the CIES. Furthermore, the Council looked at several observable factors regarding the robustness of the airport operations going forward resulting in an expected lifetime loss provision of £0.171m (£0.197m in 2020/21) in the event all repayments are not made or further delayed at some time in the future.

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

NIAL Group Limited made a loss before tax of £31.306m and a loss after tax of £32.755m for the year ended 31 December 2021. In the previous year, the Group made a loss before tax of £34.025m and a loss after tax of £31.835m.

Gateshead Trading Company

The Gateshead Trading Company Ltd (GTC) is a wholly owned subsidiary of the Council limited by shares. Its activities during 2021/22 included construction, design services and economic development. The company's turnover in 2021/22 was £1.778m (£4.546m in 2020/21). The company's cost of sales in 2021/22 was £1.733m (£4.449m in 2020/21). The company made a profit of £0.740m in 2021/22 (loss £0.026m in 2020/21). During 2021/22 a grant of £0.769m was made by the council to GTC. At the year end GTC owed the Council £0.750m (£2.907m in 2020/2021) and the Council owed GTC £0.086m (£0.524m in 2020/2021

Gateshead Energy Company

The Gateshead Energy Company Ltd (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 2021/22 was £3.763m (£2.018m in 2020/21). The company's cost of sales in 2021/22 was £3.607m (£1.597m in 2020/21). The company made a loss of £0.154m in 2021/22 (profit of £0.246m in 2020/21). At the year end, GEC owed the Council £4.473m (£3.730m in 2020/2021) and the Council owed GEC £0.096m (£0.315m in 2020/2021).

Regent Funeral Services

Regent Funeral Services Ltd (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 2021/22 was £0.301m (£0.393m in 2020/21). The company's cost of sales in 2021/22 was £0.177m (£0.216m in 2020/21). The company made a loss of £0.224m in 2021/22 (loss of £0.146m) in 2020/21). At the year end, RFS owed the Council £0.773m (£0.554m in 2020/2021) and the Council owed RFS £0.063m (£0.063m in 2020/2021.

PSP Gateshead Limited Liability Partnership (LLP)

PSP Gateshead is a partnership between the Council and Public Sector Plc (PSP) which was incorporated on 13 January 2017 and began trading on 1 April 2019. The company was set up to consider the viability of investment in the Council's portfolio of commercial properties with a view to reducing costs, increasing income, enhancing its value and improving the return on its investment. The partnership ended on 24 December 2021 and management of the commercial properties was brought back in-house.

Gateshead Regeneration LLP

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

Construction is nearing completion on the first tranche of sites, including schemes at Saltwell and Birtley, involving over 452 homes and over £93m of investment. GRP continues to experience strong sales performance and growing momentum and is aiming to develop a further 343 homes on the Freight Depot and Birtley sites in 2022/23.

GRP made a profit of £1.221m for the year ended 2021/22 (£1.107m profit in 2020/21) taking the overall retained profit for GRP to £2.586m. The company's turnover was £23.013m in 2021/22 (£20.431m in 2020/21). The company's cost of sales was £21.417m in 2021/22 (£18.398m in 2020/21).

The financial projections of the company indicate that its overall profits in 2021/22 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 2021/22 accounts will be published by 31 December 2022.

North Music Trust

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

Baltic Flour Mills Visual Arts Trust

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

Keelman Homes

Keelman Homes is a charitable company limited by guarantee. The Council has provided loans to Keelman Homes to enable them to carry out their strategic objectives. The amount outstanding at 31 March 2022 was £16.322m (£15.118m at 31 March 2021). In addition, the Council under a management agreement manages and maintains the Keelman Homes properties once let and they therefore have day to day responsibility for the operations being undertaken by Keelman Homes.

16. Trading operations

Trading operations are required to be re-apportioned across services if failure to do so would result in a material misstatement in the reported total cost of services. As the balances are not material, they are not re-apportioned in the Comprehensive Income and Expenditure Statement (see Note 7 for details). For 2021/22, this now includes Construction which was previously delivered by The Gateshead Housing Company.

2020/21		2021/22		
(Profits) / losses £000s		Income £000s	Expenditure £000s	(Profits) / losses £000s
1,127	Building Cleaning	(3,533)	5,069	1,536
240	Civic Restaurants	(331)	455	124
(57)	Fleet	(7,563)	7,375	(188)
507	Maintenance	(3,448)	3,861	413
324	School Meals	(6,044)	6,546	502
0	Construction	(23,284)	23,548	264
929	Highways	(21,336)	22,336	1,000
3,070		**(65,539)**	**69,190**	**3,651**

17. Property, plant and equipment

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

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

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

  Valuations are carried out by Jones Lang LaSalle (JLL), as at 1 December 2021, in the reporting period. The Council's Energy from Waste asset was subject to a separate specialist valuation carried out by Hilco.

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

Asset Type	Measurement
Infrastructure, community, vehicles, plant & equipment and assets under construction (excluding investment property)	Historical cost, net of depreciation, where appropriate
Dwellings	Current value, determined using the basis of Existing Use Value for Social Housing (EUV-SH);
Surplus Assets	Fair value, estimated at highest and best use from a market participant's perspective
All other	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, such as for school buildings, depreciated replacement cost (DRC) is used as an estimate of current value.

Valuations are carried out on a rolling programme basis, with 33% of assets valued each year. This provides a full revaluation every three years. BCIS indices and market intelligence have been used to assess whether any material changes which could impact valuations have occurred between 1 December 2021 to 31 March 2022 for those assets valued in year and from the 1 April 2020 to 31 March 2022 for all other assets.

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.

Change in estimates

Our external valuers, JLL, applied a Beacon approach, as outlined in DCLG guidance, by estimating beacons based on post code area and location as opposed to wards which had been used previously. This more effectively mirrors the realities of the housing market where some wards contain a combination of higher and lower value neighbourhoods. As a result, the value of the Dwellings has increased due to a more granular estimate of value for property types and locations. The effect of this change in estimate has been to increase the value of the Council Dwellings by £130.9m.

- **Disposal of Assets**: when an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the *Other Operating Expenditure* line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any income arising from the disposal of an asset in excess of £10,000 is categorised as a capital receipt. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

- **Depreciation:** IAS 16 *Property, Plant and Equipment* requires depreciation to be provided for all non-current assets with a finite useful life (which is determined at the time of acquisition or revaluation) according to the following policy:
  - A full year's depreciation is charged on newly acquired assets in the year of acquisition, although assets in the course of construction are not depreciated until brought into use;
  - Depreciation is calculated using the straight line method; and
  - Generally, assets are depreciated in accordance with the following estimate of useful lives:

- Computers and other equipment 3-10 years
- Vehicles (depending on make/model/use) 3-10 years
- Buildings (depending on use/construction /condition) 15-50 years
- Infrastructure assets (excluding Millennium Bridge) 30 years
- Gateshead Millennium Bridge 120 years
- Council dwellings 50 years
- Solar panels 20 years

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

In May 2022, CIPFA LASAAC (Local Authority Code Board) announced an urgent consultation for temporary proposals to update the Code of Practice on Local Authority Accounting in the United Kingdom for infrastructure assets. The proposals are intended to address issues raised by audit firms in relation to the derecognition of infrastructure assets as and when replacements are made. At the time of writing, the outcome of the consultation, which closed in June 2022, has not been published therefore no changes have been made to the depreciation policy for infrastructure assets. Once the update is published it may require changes to the value of infrastructure reported in the 2021/22 accounts.

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

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

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

Surplus Property

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

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

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

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

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

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

Surplus property Fair value using:	Level 1 £000s	Level 2 £000s	Level 3 £000s	**Total** **£000s**
Residential Land	0	13,860	0	**13,860**
Offices	0	0	0	**0**
Total	0	**13,860**	0	**13,860**

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 *	Assets under construction ‡	Vehicles, plant and equipment ‡	Council dwellings *	Infrastructure ‡	Community assets ‡	Surplus assets $	**Total**
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance at 1 April 2020	**467,467**	**22,785**	**74,093**	**740,939**	**234,079**	**6,185**	**23,236**	**1,568,784**
Reclassifications	10,370	(15,529)	0	3,099	0	610	2,616	1,166
Additions	3,912	21,358	4,852	19,563	10,871	133	183	60,872
Donations (restated)	0	0	0	0	0	0	0	0
Disposals	(750)	0	(1,035)	(2,559)	0	0	(365)	(4,709)
Revaluation increase/(decrease) to Revaluation Reserve	16,659	9,979	0	(16,378)	0	0	(742)	9,518
Revaluation increase/(decrease) to Comprehensive I&E (restated)	(21,207)	(15,768)	0	(13,826)	0	0	(377)	(51,178)
Impairment Charged to Revaluation Reserve	0	0	0	0	0	0	0	0
Impairment Charged to Comprehensive I&E	(700)	0	0	0	0	0	0	(700)
Balance at 31 March 2021	**475,751**	**22,825**	**77,910**	**730,838**	**244,950**	**6,928**	**24,551**	**1,583,753**
Incorporation of Gateshead Housing Company	2,355	0	1,416	(1,736)	0	0	-1	2,034
Balance at 31 March 2021 restated	**478,106**	**22,825**	**79,326**	**729,102**	**244,950**	**6,928**	**24,550**	**1,585,787**
Reclassifications	(4,424)	(4,867)	0	1,551	2,689	0	2,309	(2,742)
Additions	4,666	36,409	3,179	19,829	19,214	261	3,652	87,210
Donations	0	0	0	0	0	0	0	0
Disposals	(1,056)	0	(854)	(5,931)	0	0	0	(7,841)
Revaluation increase/(decrease) to Revaluation Reserve	15,641	0	0	121,559	0	0	(3,139)	134,061
Revaluation increase/(decrease) to Comprehensive I&E	2,095	0	0	8,153	0	0	(13,512)	(3,264)
Impairment Charged to Revaluation Reserve	0	0	0	0	0	0	0	0
Impairment Charged to Comprehensive I&E	0	0	0	0	0	0	0	0
Balance at 31 March 2022	**495,028**	**54,367**	**81,651**	**874,263**	**266,853**	**7,189**	**13,860**	**1,793,211**

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

Accumulated depreciation and net book values:

	Other land and buildings *	Assets under construction ‡	Vehicles, plant and equipment ‡	Council dwellings *	Infrastructure ‡	Community assets ‡	Surplus assets $	**Total**
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance at 1 April 2020	**(24,970)**	**0**	**(57,602)**	**(14,817)**	**(76,861)**	**(1)**	**(8)**	**(174,259)**
Reclassifications	491	0	0	(45)	0	(82)	(364)	0
Disposals	193	0	1,014	51	0	0	0	1,258
Depreciation written out to Revaluation Reserve on revaluation	12,520	0	0	10,175	0	0	30	22,725
Depreciation written out to Comprehensive I&E on revaluation	11,756	0	0	4,638	0	0	342	16,736
Depreciation (Restated)	(19,140)	0	(5,737)	(14,910)	(7,568)	0	(191)	(47,546)
Depreciation written out to Revaluation Reserve on impairment	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
Balance at 31 March 2021	**(19,150)**	**0**	**(62,325)**	**(14,908)**	**(84,429)**	**(83)**	**(191)**	**(181,086)**
Incorporation of Gateshead Housing Company	(37)	0	(1,094)	(74)	0	0	0	(1,205)
Balance at 31 March 2021 restated	**(19,187)**	**0**	**(63,419)**	**(14,982)**	**(84,429)**	**(83)**	**(191)**	**(182,291)**
Reclassifications	61	0	0	(52)	0	0	(9)	0
Disposals	56	0	849	122	0	0	0	1,027
Depreciation written out to Revaluation Reserve on revaluation	14,442	0	0	22,056	0	0	0	36,498
Depreciation written out to Comprehensive I&E on revaluation	3,591	0	0	3,048	0	0	216	6,855
Depreciation	(19,456)	0	(5,506)	(16,436)	(8,432)	0	(19)	(49,849)
Depreciation written out to Revaluation Reserve on impairment	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
Balance at 31 March 2022	**(20,493)**	**0**	**(68,076)**	**(6,244)**	**(92,861)**	**(83)**	**(3)**	**(187,760)**

	Other land and buildings *	Assets under construction ‡	Vehicles, plant and equipment ‡	Council dwellings *	Infrastructure ‡	Community assets ‡	Surplus assets $	**Total**
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Net Book Value at 31/03/2021	**458,919**	**22,825**	**15,907**	**714,120**	**160,521**	**6,845**	**24,359**	**1,403,496**
Net Book Value at 31/03/2022	**474,535**	**54,367**	**13,575**	**868,019**	**173,992**	**7,106**	**13,857**	**1,605,451**

* 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	0	0	81,651		266,853	6,367	54,367	**409,238**
Valued at Current Value as at:								
Assets valued 1 Dec 2021	278,472	874,263	0	13,860	0	0	0	**1,166,595**
Assets valued 1 April 2020	216,556	0	0	0	0	822	0	**217,378**
Assets valued 1 April 2019	0	0	0	0	0	0	0	**0**
Total Cost or Valuation	**495,028**	**874,263**	**81,651**	**13,860**	**266,853**	**7,189**	**54,367**	**1,793,211**

18. Heritage assets

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

The Council maintains a register for all heritage assets which records the nature, cost, valuation and current locations of each asset. The majority of the Councils collection is valued by the Tyne & Wear Archives & Museums (TWAM) Art Curators with items only being routinely valued if they go out on loan. Heritage assets are classified into the following categories:

- **Civic regalia:** These items are reported in the Balance Sheet at insurance valuation which is based on market values and is reviewed annually. The collection is relatively static and acquisitions and donations are rare. Where they do occur, they are initially recognised at cost and donations are recognised at valuation with reference to appropriate commercial markets.
- **Museum collections:** Any item over £10,000 is reported in the Balance Sheet at insurance valuation. The values are reviewed annually by curators at the TWAM using their knowledge and expertise of market values. 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 item over £10,000 is reported in the Balance Sheet. The values are reviewed annually by the Council's Cultural services staff and they are informed by commercial markets and/or estimated replacement costs. Acquisitions are made by purchase or donation. Purchases are initially recognised at cost and donations are recognised at valuation with reference to appropriate commercial markets.
- **Buildings:** Buildings that are preserved for future generations due to their historical and cultural nature and have therefore been reclassified by the valuer from Property, Plant and Equipment. The valuation is based on the likely replacement cost, which is informed by knowledge of the structure and ongoing maintenance programs.

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

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

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

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

Note information: The Council has identified £28.6m heritage assets, held to increase the knowledge, understanding of the Council's history and local area. These have been split into the following categories:

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

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

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

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

	Public artwork £000s	Civic regalia £000s	Buildings £000s	Museum collections £000s	Total £000s
Cost or Valuation					
1 April 2020	11,176	379	956	14,641	27,152
Reclassified from PPE	0	0	0	0	0
Additions	0	0	0	0	0
Donations	313	0	1,000	0	1,313
Disposals	0	0	0	0	0
Revaluations	50	0	(806)	0	(756)
31 March 2021	**11,539**	**379**	**1,150**	**14,641**	**27,709**
Cost or Valuation					
1 April 2021	11,539	379	1,150	14,641	27,709
Reclassified from PPE	0	0	0	0	0
Additions	0	0	0	0	0
Donations	0	0	0	0	0
Disposals	(100)	0	(150)	0	(250)
Revaluations	1,020	0	0	96	1,116
31 March 2022	**12,459**	**379**	**1,000**	**14,737**	**28,575**

19. Capital commitments and capital financing

Redemption of debt: accounting policy

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

Capital commitments

At 31 March 2022 the Council had £22m of contractual commitments for the construction or enhancement of property, plant and equipment (£24m in 2020/21). These relate to the following schemes:

- Investment in Sister Winifred Laver £6.6m
- Investment in Baltic Quarter Enabling Infrastructure £7.4m
- Investment in Gateshead Quays Multi Storey Car Park £7.8m

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

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

2020/21 £000s		2021/22 £000s
764,157	**Opening capital financing requirement**	**762,995**
	Capital investment	
60,870	Property, plant and equipment	88,381
0	Heritage assets	0
0	Investment properties	0
2,197	Intangible assets	420
56	Assets held for sale	0
5,495	Revenue expenditure funded from capital under statute	3,844
2,200	Long-term debtors relating to capital transactions	4,550
0	Acquisition of PFI assets	0
	Sources of finance	
(2,156)	Capital receipts	(3,077)
(48,079)	Government grants and other contributions	(49,167)
	Sums set aside from revenue:	
(2,473)	Direct revenue contributions	(1,563)
(19,272)	MRP/loans fund principal	(22,267)
762,995	**Closing capital financing requirement**	**784,116**
	Explanation of movements in year:	
(2,547)	Increase/(decrease) in underlying need to borrowing (supported by government financial assistance)	(2,547)
4,407	Increase in underlying need to borrowing (unsupported by government financial assistance)	26,839
(3,021)	Assets acquired under PFI/PPP contracts	(3,171)
(1,161)	**Increase/(decrease) in capital financing requirement**	**21,121**

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 £219m 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

31/03/21 £000s Schools	Waste		31/03/22 £000s Schools	Waste
26,229	**40,661**	**Opening values**	**29,651**	**44,811**
0	0	Additions	2	0
0	271	Transfers	0	0
0	0	Disposals	0	0
(809)	0	Downward Revaluations	(1,743)	(1,747)
4,963	6,045	Upward revaluations	967	7,400
(732)	(2,166)	Depreciation	(640)	(2,330)
29,651	**44,811**	**Closing values**	**28,237**	**48,134**

b) Analysis of movements in PFI liabilities

The following transactions were processed during 2021/22:

2020/21 £000s (Restated) Schools	Waste		2021/22 £000s Schools	Waste
1,427	5,192	Services	1,398	5,432
0	1,407	Lifecycle	0	959
964	2,057	Capital repayment	1,028	2,143
1,401	771	Interest	1,337	729
928	330	Contingent rent	998	421
4,720	**9,757**	**Total payment**	**4,761**	**9,684**
(2,981)	(1,805)	PFI grant receivable (excluding academy schools)	(2,981)	(1,805)
1,739	**7,952**	**Net payment**	**1,780**	**7,879**

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

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

31/03/21 £000s Schools	Waste		31/03/22 £000s Schools	Waste
(21,160)	**(37,468)**	**Opening values**	**(20,196)**	**(35,411)**
0	0	Additions	0	0
964	2,057	Repayment of capital	1,027	2,143
(20,196)	**(35,411)**	**Closing values**	**(19,169)**	**(33,268)**

c) Analysis of unitary charge payments outstanding

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

	Repayment of liability		Interest payment		Service charges		Total
	Schools £000s	Waste £000s	Schools £000s	Waste £000s	Schools £000s	Waste £000s	£000s
– within 1 year	1,096	1,843	1,269	685	2,439	5,770	**13,102**
– between 1 and 5 years	5,158	6,966	4,302	2,362	10,204	25,023	**54,015**
– between 5 and 10 years	8,617	9,570	3,208	2,137	13,850	34,246	**71,628**
– between 10 and 15 years	4,298	9,961	432	1,138	3,680	39,075	**58,584**
– between 15 and 20 years	0	4,928	0	158	0	16,261	**21,347**
– between 20 and 25 years	0	0	0	0	0	0	**0**
	19,169	**33,268**	**9,211**	**6,480**	**30,173**	**120,375**	**218,676**

d) Significant contractual information

Significant terms of the arrangement

Schools

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

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

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

Waste

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

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

Rights to use specified assets

Schools

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

Waste

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

Rights to expect provision of services

Schools

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

Waste

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

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

Schools

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

There are a number of agreements between the Council and the Diocese around the shared Highfield / St

Joseph's site. They ensure that the Diocese has the right to use their half of the site indefinitely following hand back, along with rights to use shared areas for the duration of the contract.

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

Waste

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

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

Renewal and termination options

Schools

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

Waste

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

Other rights and obligations

Schools

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

21. Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Due to the risk of lost income from reduced interest earned or the cost of penalties charged for early redemption of fixed-term investments, the Council does not consider fixed-term investments to be highly liquid. Fixed-term investments are shown on the Balance Sheet as either long or short-term investments depending on the remaining term to maturity of the investment.

In the Cash Flow Statement, cash and equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management. The balance of cash and cash equivalents is made up of the following elements:

31/03/21 £000s		31/03/22 £000s
39	Cash held by the Council	27
(20,888)	Bank overdraft - Council	(11,363)
14,027	Current deposits - Council	28,101
(6,822)	**Total Council cash and cash equivalents**	**16,765**
2,027	Cash - TGHC	n/a
0	Intra-group cash to be excluded	n/a
(4,795)	**Group cash and cash equivalents**	**16,765**

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

22. Debtors

These amounts represent sums due from a number of sources, such as other local authorities and government departments. It may also include payments in advance, such as invoices spanning financial periods:

31 March 2021 £000s			31 March 2022 £000s	
< 1 year	> 1 year		< 1 year	> 1 year
37,266	0	Central government bodies	24,100	0
14,666	0	NHS bodies	12,210	0
11,296	0	Other local authorities	10,261	0
0	0	Other public bodies	0	0
50,409	28,073	Other Entities and Individuals	52,077	31,813
113,637	**28,073**		**98,648**	**31,813**
1,485	0	Debtors - TGHC	n/a	n/a
(1,098)	0	Intra-group debtors to be excluded	n/a	n/a
114,024	**28,073**	**Group total**	**98,648**	**31,813**

The debtors' balance represents the amount due to the Council from customers or grants outstanding from funding bodies. An impairment allowance of £14.270m is held within the O*ther Entities and Individuals* category above to provide against the risk of default on debt outstanding from trade, or non-government, debtors (2020/21: £13.346m).

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

The impairment allowances in relation to council tax as at 31 March 2022 was estimated as £2.757m (2020/21: £2.565m) whilst the impairment allowance in relation to business rates was estimated as £1.997m (2020/21: £1.482m). These represent the Council's share of the provision for bad debt as the preceptor shares are allocated in proportion to their share.

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

31 March 2021 £000s		31 March 2022 £000s
1,980	Less than three months	1,939
1,857	Three to six months	1,827
4,193	Six months to one year	4,136
12,417	More than one year	14,580
20,447		**22,482**

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

Less than one year

- Miscellaneous Debtors £17.1m (£20.7m 2020/21)
- Council Tax arrears (after bad debt provision) £15.4m (£14.1m 2020/21)
- HRA Arrears £10.0m (£9.6m 2020/21)
- Business Rates arrears (after bad debt provision) £2.3m (£2.3m 2020/21)

Greater than one year

- Loan to Keelman Homes Ltd £16m (£14.8m 2020/21)
- Long term loan note with Newcastle Airport £12m (£10.9m 2020/21)
- Loan to Gateshead Energy Company £3m (loan only made in 2021/22)

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 2022/23:

31 March 2021 £000s Restated			31 March 2022 £000s	
< 1 year	> 1 year		< 1 year	> 1 year
(50,064)	0	Central government bodies	(93,239)	0
(2,854)	0	NHS bodies	(8,211)	0
(6,718)	0	Other local authorities	(7,441)	0
0	0	Other public bodies	0	0
(22,597)	(54,372)	Other Entities and Individuals	(24,845)	(51,955)
(82,233)	**(54,372)**		**(133,736)**	**(51,955)**
(4,491)	0	Creditors - TGHC	n/a	n/a
1,098	0	Intra-group creditors to be excluded	n/a	n/a
(85,626)	**(54,372)**	**Group total**	**(133,736)**	**(51,955)**

24. Provisions and contingent liabilities

Provisions

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

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

Where some or all of the payment required to settle a provision is expected to be recovered from another party (for example: from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation. Movements in provisions during 2021/22 were as follows:

Balance 31/03/21 £000s Restated		Receipts	Payments	New provision	Reversals	**Balance 31/03/22 £000s**
(2,472)	Business rate appeals - provision for refunds following successful appeals	0	4,093	(4,093)	0	(2,472)
0	Trinity Square	0	0	(892)	0	(892)
(1,862)	Term Time Only – provision for the backdating of pay for term-time only employees	0	0	(478)	0	(2,340)
(4,639)	Redundancies - provision for costs associated with known redundancies	0	2,947	(1,274)	0	(2,966)
(8,973)	**Current provisions**	**0**	**7,040**	**(6,737)**	**0**	**(8,670)**
(197)	Airport Expected Credit Loss –in the event all repayments are not made at some time in the future.	0	0	0	26	(171)
(6,986)	Insurance - provision for costs associated with insurance claims against the Council	(1,715)	737	(1,483)	250	(9,197)
(7,183)	**Non-current provisions**	**(1,715)**	**737**	**(1,483)**	**276**	**(9,368)**
(16,156)*	**Total provisions**	**(1,715)**	**7,777**	**(8,220)**	**276**	**(18,038)**

*The 2020/21 comparator has been restated to reflect the transfer in of the former Gateshead Housing Company balance.

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. However, the Council cannot be certain as to when the lodged appeals will be resolved because the timing of resettlement depends on the VOA.

Trinity Square: Trinity Square is a joint venture between Northumbria University and Gateshead Council providing housing for 1,000 students, it's 2020/21 deficit was a £1.504m (£0.752m Council), this is a direct result of the impact of Covid-19 on student numbers, Trinity Board agreed to retain the losses on balance sheet. As no profit has been made yet, a provision has been established to meet the expected cost of the profit sharing agreement for these accumulated losses which are expected to remain at the end of the 2021/22 academic year.

Redundancies: See Note 14 for details of expected use of provision.

Newcastle Airport Expected Credit Loss: The Council holds a 13.33% interest in NALAHCL, valued at £9.513m (subject to revaluation) (£8.410m in 2020/21). The shares are not held for trading outside of the LA7.

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially impair the valuation. The spread of COVID-19 across the world towards the end of 2019/20 led to a sudden decline in air travel prompting the value of the shareholding to be impaired. This continued throughout 2020/21 but subsequent vaccine rollout and a lifting of restrictions has seen the travel sector experience a resurgence in passenger numbers. As a result, the majority of the impairment recognised has been reversed.

Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012/13, issuing £67.665m shareholder loan notes of which £12.023m is provided by the Council (£10.920m in 2020/21). The loan notes will be repayable in 2032 with interest normally being received up to that date on a six monthly basis.

Due to major curtailments in the airport operations as a result of the Covid-19 pandemic the Council has agreed to modify the terms of these loans and has accepted that under the unprecedented circumstances the airport can defer interest repayments for the following four years (three and a half years in 2020/21) with catch up payments to be made in instalments over a later period. Under the loan agreement the Council is entitled to compound interest for any late payments and this has been factored into the repayments the airport will make once the catch up payments commence. This has resulted in a further restatement of the loan value with a cumulative modification loss of £0.703m (£0.833m in 2020/21) being recognised. The decrease in loss recognised is credited to the financing and investment income and expenditure line of the CIES. Furthermore, the Council looked at several observable factors regarding the robustness of the airport operations going forward resulting in an expected lifetime loss provision of £0.171m (£0.197m in 2020/21) in the event all repayments are not made or further delayed at some time in the future.

Term Time Only: Recent case law (The Harper Trust v Brazel) concluded term-time only employees must receive the statutory minimum holidays in accordance to the Working Time Regulations. A provision has been made to meet the estimated cost. The decision was subject to a Supreme Court appeal and on 20 July 2022 the decision was upheld.

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.

Contingent liabilities

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

- The Council entered into a contract with Northumbrian Water, whereby it collected water charges from its tenants on its behalf and was paid a commission. The High Court has found that contracts between LB Southwark and Thames Water and RB Kingston and Thames Water were contracts for the resale of water under which the recovery of commission is limited by law. RB Kingston appealed the decision to the Court of Appeal which was unsuccessful. The key issue in the cases was that the local authorities were acting as a 'customer' in which case they were reselling water services and should have passed savings onto tenants. Whilst there are similarities in the arrangements, the Council has not concluded that its agreement with Northumbrian Water was the same as those cases. Given that the Council has

not received any claims in respect of its previous contractual relationship with Northumbrian Water no provision has been made in the accounts at 31 March 2022. The Council has estimated the potential liability from similar claims to be £2.7m to be met from the Housing Revenue Account.

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

25. Employee benefits

Gateshead Council:

Post-employment benefits (pensions)

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

a. Defined contribution plan: Teachers' Pension Scheme

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

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

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

In 2021/22, the Council paid £8.422m to the TPA in respect of teachers' retirement benefits, the rate of pensionable pay was to 23.6% (plus a 0.08% levy) (2020/21 £8.642m and 23.6% plus a 0.08% levy). In addition, the Council is responsible for all pension payments relating to added years it has awarded, together with related increases. In 2021/22, these amounted to £3.531m, representing 6.1% of pensionable pay (£3.576m and 7.7% in 2020/21). The contributions due to be paid in the next financial year are estimated to be of a similar value. The Council is not liable to the scheme for any other entities' obligations under the plan.

b. Defined benefit plan: Tyne and Wear Pension Fund

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

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

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

In relation to retirement benefits, statutory provisions require the General Fund to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits

[5] See www.teacherspensions.co.uk/
[6] See www.twpf.info

and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

In 2021/22, the Council paid £25.120m (£20.292m in 2020/21) to the Pension Fund in respect of pension contributions, representing 18.9% of pensionable pay (18.9% in 2020/21) and early retirement strain on the fund payments.

The scheme is accrued in accordance with the requirements of International Accounting Standard 19 *Employee Benefits*[7] (IAS 19). This accounts for retirement benefits when they are committed to be given, even if the actual giving is many years into the future. IAS 19 also requires the inclusion of the Council's attributable share of the fund's assets and liabilities. Further information on the Tyne and Wear Pension Fund can be found in their Annual Report. This is available upon request from South Tyneside Council.

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

Transactions relating to retirement benefits

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

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

Charges to the Comprehensive Income & Expenditure Statement (CIES)				
	Funded liabilities		Unfunded liabilities	
	2020/21 £m	2021/22 £m	2020/21 £m	2021/22 £m
CIES:				
Cost of Services:				
Current service cost	46.35	64.38	0.00	0.00
Past service cost (including curtailments)	0.71	1.54	0.00	0.00
Settlement cost	0.00	79.63	0.00	0.00
Financing and Investment Income and Expenditure:				
Interest on net defined benefit liability/(asset)	11.14	12.70	1.94	1.87
Pension expense charged to Surplus/Deficit on Provision of Services	**58.20**	**158.25**	**1.94**	**1.87**
Pension expense charged to Other Comprehensive Income and Expenditure:				
Re-measurement of net defined benefit liability:				
- Return on plan assets	(253.67)	(70.86)	0.00	0.00
- Actuarial (gains)/losses due to:				
changes in financial assumptions	310.24	(132.73)	9.48	(2.36)
changes in demographic assumptions	0.00	(18.25)	0.00	(0.85)
liability experience	24.51	4.66	(1.23)	(2.91)
Total amount charged to Other Comprehensive Income and Expenditure	**81.08**	**(217.18)**	**8.25**	**(6.12)**
Total amount recognised charged to the CIES	**139.28**	**(58.93)**	**10.19**	**(4.25)**

Movement in Reserves Charges				
	Funded liabilities		Unfunded liabilities	
	31/03/21 £m	31/03/22 £m	31/03/21 £m	31/03/22 £m
Movement in Reserves Statement				
Reversal of net charges made for retirement benefits in accordance with the Code	29.25	58.99	(3.60)	(3.53)
Actual amount charged against the General Fund for pensions in the year				
Employer contributions payable to the scheme	20.68	25.45		
Retirement benefits payable to pensioners			5.55	5.50

Assets and liabilities in relation to retirement benefits:

Reconciliation of the present value of Fund liabilities (defined benefit obligation)				
	Funded liabilities		Unfunded liabilities	
	31/03/21	31/03/22	31/03/21	31/03/22
	£m	£m	£m	£m
Opening defined benefit obligation at 1 April	**1,706.26**	**2,087.24**	**87.04**	**91.72**
Current service cost	46.35	64.38	0.00	0.00
Interest expense on defined benefit obligation	38.80	43.51	1.94	1.87
Contributions from employees (Fund participants)	8.10	8.19	0.00	0.00
Re-measurement (gains) and losses:				
- Actuarial (gains)/losses on liabilities:				
financial assumptions	351.60	(132.73)	9.48	(2.36)
demographic assumptions	0.00	(18.25)	0.00	(0.85)
experience	(16.85)	4.66	(1.23)	(2.91)
Net decrease in liabilities from disposals (TGHC)	0.00	0.00	0.00	0.00
Net benefits paid out	(47.73)	(49.42)	(5.51)	(5.39)
Past service cost (including curtailments)	0.71	1.54	0.00	0.00
Settlements (liabilities extinguished)	0.00	5.65	0.00	0.00
Closing defined benefit obligation at 31 March	**2,087.24**	**2,014.77**	**91.72**	**82.08**

Reconciliation of fair value of the scheme assets:

Reconciliation of the movements in the fair value of Fund assets				
	Funded liabilities		Unfunded liabilities	
	31/03/21	31/03/22	31/03/21	31/03/22
	£m	£m	£m	£m
Opening fair value of Fund assets	**1,209.88**	**1,475.66**	**0.00**	**0.00**
Interest income on assets	27.66	30.81	0.00	0.00
Re-measurement gains and (losses) on assets	253.67	70.86	0.00	0.00
Employer contributions	24.08	25.61	5.51	5.39
Employee contributions	8.10	8.19	0.00	0.00
Net benefits paid out	(47.73)	(49.42)	(5.51)	(5.39)
Net increase in assets from disposals/acquisitions	0.00	0.00	0.00	0.00
Settlements	0.00	(0.32)	0.00	0.00
Closing fair value of Fund assets	**1,475.66**	**1,561.39**	**0.00**	**0.00**

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

	2020/21 £m	2021/22 £m
Interest income on assets	27.66	30.81
Re-measurement gain / (loss) on assets	253.67	70.86
Actual return on assets	**281.33**	**101.67**

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

	31/03/21	31/03/22		
	Total	Quoted	Unquoted	Total
Equity investments	55.5%	47.8%	9.2%	57.0%
Property	7.9%	0.0%	8.4%	8.4%
Government bonds	2.2%	2.0%	0.0%	2.0%
Corporate bonds	19.8%	18.8%	0.0%	18.8%
Cash	4.0%	1.8%	0.0%	1.8%
Other assets	10.6%	4.8%	7.2%	12.0%
	100.0%	**75.2%**	**24.8%**	**100.0%**

Scheme history of gains and losses

The liabilities below show the underlying commitment that the Council has to pay retirement benefits. The total liability has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, decreasing the overall balance as shown below. Statutory regulations for funding the deficit mean that the 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:

	31/03/21 £m	31/03/22 £m
Funded:		
Fair value of Fund assets	1,475.66	1,561.39
Present value of the unfunded defined benefit obligation - Council	(2,087.24)	(2,014.77)
	(611.58)	(453.38)
Unfunded:		
Present value of the unfunded defined benefit obligation - Council	(91.72)	(82.08)
Asset / (liability) recognised on Balance Sheet	**(703.30)**	**(535.46)**

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 2023 are estimated to be £25.29m. In addition, strain on the fund contributions may be required. It is also expected that the Council will pay £5.56m directly to beneficiaries (unfunded).

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

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

Actuarial assumptions

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

The valuation of liabilities is based on a complex set of financial assumptions on the discount rate, CPI inflation and pay growth (linked to inflation).

- The accounting standards require the financial assumptions to be determined with regard to market process and inflations assumptions are commonly set by reference to inflation rates into the UK gilts market. However, the UK gilts market is based on Retail Price Inflation (not CPI inflation), so it is necessary to make a judgement on the future expected difference in the RPI and CPI measures (the RPI-CPI 'wedge'). A further judgement is also commonly made on the perceived distortions in the gilts market driven by supply and demand factors, which can over-state market-implied inflation. This is called the Inflation Risk Premium (IRP).

  - **The RPI-CPI 'wedge'** - due to the differences in calculation methods, the RPI measure is generally higher than the CPI measure. However, in September 2019 the Chancellor has set out proposals to replace (or align) RPI with CPIH (Consumer Pricing Index, including housing costs) sometime between 2025 and 2030. The Government's response to its consultation was published on 25 November 2020, and strongly implied that RPI will become aligned with CPIH from 2030. There is now an expectation that RPI will be significantly lower post 2030. The actuarial assumptions are a RPI-CPI 'wedge' of 0.9% is used before 2030 and 0.1% after 2030. This compares to an assumption of 0.8% before 2030 and 0.5% after 2030 used in the last accounting date. The increase of 0.1% pre 2030 reflects changes in Consensus Economics survey data.

  - **Allowing for IRP** - the assumptions are that IRP may vary by duration, and in particular is now believed to be higher post 2030. This is because, despite expectations that RPI inflation will be lower post 2030, there is no evidence of a reduction in RPI forward rates immediately following 2030. As there is also no evidence or justification in the market data for a step increase in CPI forward rates from 2030, this suggests a higher IRP exist from 2030. The actuarial assumptions are an IRP of 0.2% is used before 2030 and 0.6% after 2030, no change from the last accounting date.

- Pay growth is derived from adding a margin above the inflation assumption which is consistent with the methodology adopted for in the 2019 Valuation.

McCloud/Sargeant Judgement

Assets and liabilities valuations also take into account the impact of the McCloud / Sergeant judgement that found the transitional arrangements in place when firefighters and judges pensions schemes were reformed were age discriminatory. This judgement is likely to affect all other public sector pension funds which reformed around this time and applied the same transitional arrangements. Figures produced by Aon Solutions UK Ltd last year included an 'underpin' liability within the current service cost, together with an allowance within the balance sheet reflecting service since the scheme reforms in 2014. The approach taken for 2021/22 assumes that the same approach is taken, using a roll-forward method based on last year's results. The remedy applies to all those in the scheme on 1 April 2012, on retirement or prior withdrawal, and will apply to dependants of those members. The approach is closely aligned with the method proposed by MHCLG (now DLUHC) in its consultation issued in July 2020.

Cost Management

Legislation requires HM Treasury (HMT) and the Scheme Advisory Board (SAB) to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. HM Treasury and the SAB had paused their 2016 reviews following the McCloud judgement in the Court of Appeal. These have now been unpaused and HMT Directions were made over 2021 which allowed the reviews to proceed. The outcome of the SAB review has been published and has recommended no changes to the provisions of the Scheme. It is expected that HMT will also recommend no changes. However, the legality of the Government's decision to include McCloud costs as a member cost within the 2016 HMT process is being challenged by a Judicial Review brought by the trades unions. If the Judicial Review is successful this may cause the 2016 HMT process to be re-run and could result in changes in benefits or member contributions backdated to 1 April 2019. The actuarial assumptions make no allowance for the potential cost of improving members' benefits under these reviews.

Guaranteed Minimum Pension (GMP) Equalisation and Indexation

The standard approach is to value full CPI inflation pension increases on GMPs of members whose State Pension Age (SPA) is on or after 6 April 2016. This is an approximate method of recognition the cost of the Government's commitment to compensate public service scheme members from the removal of the Additional Pension element of the State Pension from this date, and for the outcome of the Lloyds judgement which found GMPs to be illegal sex discriminatory. Government have consulted on its approach and announced on 23 March 2021 that it would adopt a long-term policy of uprating GMPs in line with CPI inflation for members whose SPA is on or after 6 April 2016. In October 2020, a second ruling in the Lloyds Bank case clarified that compensation would be required for members who transferred benefits out since May 1990. The Government have not yet acknowledged a liability in public service schemes nor indicated an approach to rectifying this. As such, the actuarial assumptions make no allowance for the potential liability resulting from this second ruling.

The principal assumptions used by the actuaries have been:

	Funded Liabilities		Unfunded Liabilities	
	2020/21	**2021/22**	**2020/21**	**2021/22**
Financial assumptions (% per annum)				
Discount rate for Fund liabilities	2.1%	2.7%	2.1%	2.7%
Rate of inflation - RPI	N/A	N/A	N/A	N/A
Rate of inflation - CPI	2.7%	3.0%	2.7%	3.0%
Rate of increase to pensions in payment	2.7%	3.0%	2.7%	3.0%
Rate of increase to deferred pensions	2.7%	3.0%	N/A	N/A
Rate of general increase in salaries	4.2%	4.5%	N/A	N/A
Mortality assumptions (years)				
Longevity at 65 for current pensioners:				
Men	21.9	21.8	21.9	21.8
Women	25.1	25.0	25.1	25.0
Longevity at 65 for future pensioners:				
Men	23.6	23.5	N/A	N/A
Women	26.9	26.7	N/A	N/A
Commutation				
2021/22 and 2020/21: 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 2022 and the projected service cost for the year ending 31 March 2023 is set out below:

	+0.1%	-0.1%
Funded LGPS benefits	**Council**	**Council**
Discount rate assumption:		
Adjustment to discount rate		
Present value of total obligation (£m)	1,974.47	2,055.07
% change in present value of total obligation	-2.0%	2.0%
Projected service cost (£m)	58.36	62.40
Approximate % change in projected service cost	-3.3%	3.4%
Rate of general increase in salaries:		
Adjustment to salary rate increase		
Present value of total obligation (£m)	2,020.81	2,008.73
% change in present value of total obligation	0.3%	-0.3%
Projected service cost (£m)	60.35	60.35
Approximate % change in projected service cost	0.0%	0.0%
Rate of increase to pensions in payment and deferred pensions assumption and rate of revaluation of pension accounts:		
Adjustment to pension increase rate		
Present value of total obligation (£m)	2,049.02	1,980.52
% change in present value of total obligation	1.7%	-1.7%
Projected service cost (£m)	62.40	58..36
Approximate % change in projected service cost	3.4%	-3.3%
Post retirement mortality assumption:		
Adjustment to mortality age rating assumption*		
Present value of total obligation (£m)	2,085.29	1,946.27
% change in present value of total obligation	3.5%	-3.4%
Projected service cost (£m)	62.76	58.00
Approximate % change in projected service cost	4%	-3.90%

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

Discretionary benefits

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

26. Financial instruments

a. Accounting policies

Financial assets

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

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

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are

therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial assets Measured at Amortised Cost

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

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

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

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

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

Expected Credit Loss Model

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

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

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

The Council has grouped similar loans for assessing loss allowances:

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

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

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

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

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

Amounts arising from Expected Credit Losses

The Council is required to carry out an assessment of anticipated credit loss and create an appropriate allowance.

Due to major curtailments in the airport operations as a result of the Covid-19 pandemic the Council has agreed to modify the terms of these loans and has accepted that under the unprecedented circumstances the airport can defer interest repayments for the following four years (three and a half years in 2020/21) with catch up payments to be made in instalments over a later period. Under the loan agreement the Council is entitled to compound interest for any late payments and this has been factored into the repayments the airport will make once the catch up payments commence. This has resulted in a further restatement of the loan value with a cumulative modification loss of £0.703m (£0.833m in 2020/21) being recognised. The decrease in loss recognised is credited to the financing and investment income and expenditure line of the CIES. Furthermore, the Council looked at several observable factors regarding the robustness of the airport operations going forward resulting in an expected lifetime loss provision of £0.171m (£0.197m in 2020/21) in the event all repayments are not made or further delayed at some time in the future.

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

Financial Assets Measured at Fair Value through Profit and Loss

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

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

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

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

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

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

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

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

Significant Observable Inputs – Level 3

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

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

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

SCAPE

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

movements in the value of these shareholdings until such time as the shares are sold or released.

Financial liabilities

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

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

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

b. Nature and extent of risk arising from financial instruments

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

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

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

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

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

The annual treasury management strategy which incorporates the prudential indicators was approved by Cabinet on 23 March 2021 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2021/22 was set at £865m. This is the maximum limit of external borrowing or other non-current liabilities.
- The Operational Boundary was expected to be £850m. This is the expected level of debt and other non-current liabilities during the year.
- The management of fixed and variable interest rate exposure.
- The maximum and minimum exposures to the maturity structure of debt.

- Risk management is carried out by a central treasury team, under policies approved by the Council in the annual treasury management strategy. The Council provides written principles for overall risk management, as well as written policies (covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

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

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

- 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 2022 that this was likely to crystalise.

As at 31 March 2022, £56.000m, or 38.80%, of the Council's deposits (31 March 2021: £33.000m or 37.10%) were held with financial institutions domiciled outside the UK:

	31/03/21		31/03/22	
Country of Domicile	**Amount £m**	**%**	**Amount £m**	**%**
Singapore	13.000	14.60	11.000	7.60
Canada	0.000	0.00	15.000	10.40
Germany	5.000	5.60	15.000	10.40
Australia	15.000	16.90	15.000	10.40
	33.000	**37.10**	**56.000**	**38.80**

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:

31/03/21		31/03/22		
Net value £m		**Gross value £m**	**Impairment value £m**	**Net value £m**
89.024	Deposits with financial institutions	144.093	0.000	144.093
28.073	Non-Current debtors	31.813	0.000	31.813
89.357	Current debtors	82.913	(9.516)	73.397

The debtors' balance represents the amount due to the Council from customers (excluding council tax and business rates arrears and amounts owed by HMRC). A bad debt provision of £9.516m (excluding council tax and business rates) is held on the Balance Sheet to provide against the risk of default on debt outstanding (£9.299m in 2020/21). In addition, the Council's Balance Sheet at 31 March 2022 held £151.378m (current) and £59.031m (non-current) relating to gross amounts owed for financial liabilities (£91.814m current and £59.919m non-current in 2020/21), representing amounts owed to customers (excluding HMRC, council tax and business rates); no impairment was required.

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

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

31/03/21 £m	Rating	31/03/22 £m
4.124	AAA	38.093
0.000	AA	0.000
30.000	AA-	26.000
54.900	A+	65.000
0.000	A	15.000
0.000	A-	0.000
89.024	**Total (excluding impaired investments)**	**144.093**

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

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

At 31 March 2022, all of the Council's deposits were due to mature within 364 days.

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

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

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

Market risk

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

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

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

However, changes in interest payable and receivable on variable rate borrowing and investments will affect

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

the General Fund balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

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

According to this assessment strategy, at 31 March 2022, if all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

Interest rate sensitivity analysis		
2020/21 £m		**2021/22 £m**
0.120	Increase in interest payable on variable rate borrowing	0.100
(0.462)	Increase in interest receivable on variable rate investments	(0.271)
(0.342)	**Impact on the (surplus)/deficit on the Provision of Services**	**(0.171)**
(0.155)	Decrease in fair value of fixed rate investment assets	(0.273)
155.337	Decrease in the fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive income and Expenditure)	139.307

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

Price risk: The Council does not generally invest in equity shares or marketable bonds. However, the Council does have shareholdings to the value of £10.297m in 2021/22 (£9.194m in 2020/21) in Newcastle International Airport and SCAPE. Whilst these holdings are generally illiquid, the Council is exposed to gains or losses arising from movements in the price of shares.

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

The shares have all been classified as Fair Value through Other Comprehensive Income, meaning that all movements in price will impact on gains and losses recognised in the Financial Instruments Revaluation Reserve. A general shift of 5% in the price of shares (positive or negative) would thus have resulted in a £0.515m gain or loss being recognised in the Financial Instrument Revaluation Reserve.

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

c. Financial instruments gains and losses

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

Financial instrument gains and losses				
2020/21			**2021/22**	
Surplus or Deficit on the Provision of Services £000s	**Other Comprehensive Income and Expenditure £000s**		**Surplus or Deficit on the Provision of Services £000s**	**Other Comprehensive Income and Expenditure £000s**
		Net gains/losses on:		
0	0	Financial assets measured at fair value through profit and loss	0	0
(59)	0	Financial assets measured at amortised costs	96	0
0	(599)	Investments in equity instruments designated at fair value though other comprehensive income	0	(3,251)
(59)	(599)	**Total net (gains)/losses**	96	(3,251)
		Interest Revenue:		
(2,180)	0	Financial assets measured at amortised costs	(2,172)	0
(2,180)	0	**Total interest revenue**	(2,172)	0
24,081	0	**Interest Expense**	23,274	0
21,842	**(599)**	**Total**	**21,198**	**(3,251)**

d. Financial instrument balances

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

	Current		Non-current	
	31/3/21 £000s	31/3/22 £000s	31/3/21 £000s	31/3/22 £000s
Financial liabilities at amortised cost	(44,375)	(16,823)	(620,072)	(654,966)
Total borrowing	**(44,375)**	**(16,823)**	**(620,072)**	**(654,966)**
Financial Assets at amortised cost	89,050	144,218	0	0
Investments at Fair Value through other Comprehensive Income and Expenditure:				
Unquoted equity investments	0	0	9,194	12,445
Total investments	**89,050**	**144,218**	**9,194**	**12,445**

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

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

Financial Instruments Revaluation Reserve		
31/03/21 £000's		31/03/22 £000's
8,343	**Balance at 1 April**	8,942
599	Upward revaluation of investments	3,504
8,942	**Balance at 31 March**	**12,446**

Analysis of financial liabilities at amortised cost			
Total outstanding at 31 March 2021 £000s		Interest rates payable	Total outstanding at 31 March 2022 £000s
	Source of loan		
(611,423)	Public Works Loans Board	1.69% - 11.50%	(623,268)
(53,023)	Other loan instruments	3.60% - 4.52%	(48,521)
(664,446)	**Total financial liabilities at amortised cost**		**(671,789)**
	An analysis of loan by maturity is:		
(44,375)	**Current borrowing**		**(16,823)**
(1,106)	Maturing in 1 – 2 years		(24,299)
(49,785)	Maturing in 2 – 5 years		(43,159)
(72,869)	Maturing in 5 – 10 years		(70,196)
(496,311)	Maturing in more than 10 years		(517,312)
(620,071)	**Non-current borrowing**		**(654,966)**
(664,446)	**Total borrowing**		**(671,789)**

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

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

- For loans from the PWLB payable, PWLB prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures. An additional note to the tables sets out the alternative fair value measurement applying the premature repayment rates, highlighting the impact of the alternative valuation;
- 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 2022) arising from a commitment to pay interest to lenders above current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £739.471m 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 2021		31 March 2022	
	Carrying amount £000s	Fair value £000s	Carrying amount £000s	Fair value £000s
PWLB debt	(611,423)	(799,844)	(623,268)	(739,471)
Non-PWLB debt	(53,023)	(84,410)	(48,521)	(71,765)
Total financial liabilities	**(664,446)**	**(884,254)**	**(671,789)**	**(811,236)**
Market deposits < 1 year	75,023	75,023	116,118	115,997
Market deposits > 1 year	0	0	0	0
Total financial assets	**75,023**	**75,023**	**116,118**	**115,997**

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
Current investments 31/03/22:				
Fixed-term deposits	116,000	0	118	116,118
	116,000	**0**	**118**	**116,118**
Current deposits (cash equivalents)	28,093	0	7	28,100
Total	**144,093**	**0**	**125**	**144,218**
Current investments 31/03/21:				
Fixed-term deposits	75,000	0	23	75,023
Impaired investment	0	0	0	0
	75,000	**0**	**23**	**75,023**
Current deposits (cash equivalents)	14,024	0	3	14,027
Total	**89,024**	**0**	**26**	**89,050**

27. Cash Flow Statement

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

Reconciliation of Liabilities from Financing Activities					
	01-Apr-21	Financing cash flows	Non-cash changes Acquisition	Non-cash changes Other non-cash changes	31-Mar-22
	£'000	£'000	£'000	£'000	£'000
Non-current Borrowings	(620,072)	(30,000)	1,106	(6,000)	(654,966)
Current Borrowings	(44,375)	22,612	(1,106)	6,046	(16,823)
On balance sheet PFI liabilities	(55,607)	2,143	0	0	(53,464)
Total liabilities from financing activities	**(720,054)**	**(5,245)**	**0**	**46**	**(725,253)**

28. Pooled Budgets

Section 75 of the National Health Service Act 2006 gives the powers to Local Authorities and Clinical Commissioning Groups to establish and maintain pooled funds from which expenditure on health and social care can be funded.

The Better Care Fund (BCF) was established by the Government with the goal of securing transformation in integrated health and social care. The BCF created a local single pooled budget to incentivise the NHS and local government to work more closely together around the needs of people, placing their wellbeing as the focus of health and care services, and shifting resources into community and social care services for the benefit of local people, communities and the health and care economy.

The Better Care Fund consists of a pooled budget created from three mandatory funding sources:

- The CCG minimum contribution
- Improved Better Care Fund (iBCF)
- Disabled Facilities Grant (DFG)

Whilst the iBCF and DFG pools remain at the same level as in 2020/21, the CCG minimum contribution requirement increased by 4.5%.

There are four national conditions that all BCF plans must meet to be approved:

i. A jointly agreed plan between local health and social care commissioners and signed off by the Health and Wellbeing Board.
ii. NHS contribution to adult social care to be maintained in line with the uplift to CCG minimum contribution (for Gateshead, this represents an uplift of 4.5%).

iii. Agreement to invest in NHS commissioned out-of-hospital services.
iv. A Plan for improving outcomes for people being discharged from hospital.

Under the Better Care Fund Plan schemes are grouped under the following broad areas:

- Managing discharges and admissions
- Service pressures
- Planned care
- Carers
- Disabled Facilities Grant
- Market shaping and stabilisation
- Service transformation

2020/21 £000s		2021/22 £000s
	Expenditure	
17,713	Gateshead Council - Revenue	18,013
2,111	Gateshead Council – Capital	2,111
10,290	NewcastleGateshead CCG	10,752
30,114	**Total**	**30,876**

2020/21 £000s		2021/22 £000s
	Contributions to the Pool	
16,951	Minimum NHS Contribution	17,713
2,111	Disabled Facilities Grant	2,111
11,052	Improved Better Care Fund Grant	11,052
30,114	**Total**	**30,876**

29. Authorisation of Accounts for issue

The Council's Statement of Accounts for the financial year ended 31 March 2022 will be approved, once audited, by the Accounts Committee and authorised for issue.

Signed:

Date: 27 October 2022

Darren Collins
Strategic Director, Resources and Digital & Borough Treasurer

Signed:

Date: 27 October 2022

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

Housing Revenue Account (HRA)

HRA Income and Expenditure Statement

2020/21 £000s		2021/22 £000s	Note
	Expenditure:		
24,661	Repairs and maintenance	24,844	
18,452	Supervision and management	24,535	
3,734	Special services	3,946	
3,955	Rents, rates, taxes and other charges	4,031	
24,659	Depreciation and revaluation of non-current assets	5,540	4 & 6
62	Debt management charges	96	
753	Increased provision for uncollectable debts	675	
76,276		**63,667**	
	Income:		
(72,244)	Dwelling rents (gross)	(72,985)	
(1,266)	Non-dwelling rents (gross)	(1,307)	
(3,521)	Charges for services and facilities	(4,303)	
(409)	Leaseholders charges for services and facilities	(481)	
(1,820)	Contributions towards expenditure	(2,196)	
	HRA subsidy receivable		
(79,260)		**(81,272)**	
(2,984)	**Net Cost of HRA Services as included in the Council's Comprehensive Income and Expenditure Statement**	**(17,605)**	
295	HRA services' share of Corporate and Democratic Core	295	
(2,689)	**Net Income for HRA Services**	**(17,310)**	
	HRA share of the operating income and expenditure included in the Council's Comprehensive Income and Expenditure Statement:		
(298)	(Gain) or loss on sale of HRA non-current assets	(676)	
12,580	Interest payable and similar charges	11,973	
6	HRA Interest received and investment income	(9)	
1,231	Pension interest cost and expected return on pension assets	1,888	
0	Capital grants and contributions	(1,508)	
10,830	**(Surplus)/Deficit for the year on HRA services**	**(5,642)**	

Movement on the HRA Statement

31/03/21 £000s		31/03/22 £000s	Note
31,682	**Balance on the HRA at 1 April 2021**	**31,358**	
(10,830)	Surplus / (Deficit) for the year on HRA Income and Expenditure Statement	5,642	
10,506	Adjustments between accounting basis and funding basis under regulations	(10,840)	1
(324)	Net increase / (decrease) before transfers to reserves	(5,198)	
0	TGHC Transfer	0	
(324)	**Decrease in year on the HRA**	**(5,198)**	
31,358	**Balance on the HRA at 31 March 2022**	**26,160**	

Notes to the HRA

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

2020/21 £000s		2021/22 £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:	
(9,575)	Revaluation of non-current assets	11,132
0	Capital grants and contributions	1,508
423	Accumulated Absences Account adjustment (IAS19)	0
298	Gain/ (loss) on sale of HRA non-current assets	676
(5,181)	HRA share of contributions to or from the pensions reserve	(6,980)
0	Revenue expenditure funded from capital under statute (REFCUS)	0
3,529	Capital expenditure funded by the HRA	4,512
(15,083)	Transfer to the Major Repairs Reserve (see Note 7)	(16,663)
15,083	Transfer from the capital adjustment account	16,663
0	Other	(8)
(10,506)		10,840
	The following relates to entries that have not been credited or debited to the HRA income and expenditure account but are required by statute to be debited to the HRA reserve:	
0	Amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	0
(10,506)	**Total adjustments between accounting basis and funding basis under the legislative framework**	**10,840**

2. Housing stock and Balance Sheet valuation

The number of council dwellings by type and valuation at 31 March 2022 was as follows:

31/03/21 (Restated)	**Lettable stock numbers:**	31/03/22
10,682	Houses	10,725
5,058	Flats	4,850
3,090	Bungalows	3,091
18,830		**18,666**
£000s	**Values:**	**£000s**
715,930	Council dwellings	868,019
4,184	Other land and buildings	3,888
0	Vehicle, plant, furniture and equipment	254
0	Assets under construction	5,191
0	Assets held for sale	0
720,114	**Total Balance Sheet value of land, houses and other property in the HRA**	**877,352**

It should be noted that opening values are presented prior to any revaluations carried out during 2021/22 and taking effect from 1 April 2021.

Lettable stock numbers have been restated for the previous year-end, the published total combined lettable stock numbers was 18,833, which has been adjusted by 3 due to some bungalows been overstated by the same number. There has also been a restatement for the number of lettable houses and flats, houses have gone down 170 to 10,682 and flats have increased by the same amount to 5,058 due to a correction in the categorisation of properties.

3. Vacant possession value

The vacant possession value of the HRA dwellings at 1 December 2021 was £1.976bn (£1.568bn 1 April 2020), this illustrates the economic cost to Government of providing council housing at less than open market rents when compared to the Existing Use Value for Social Housing (EUV-SH) valuation £0.874bn (£0.729bn 1 April 2020) at the same date. The EUV-SH reflects the valuation for a property if it was sold with sitting tenants paying rents at less than open market rents and tenant's rights including the right to buy.

4. Depreciation

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

2020/21 £000s		2021/22 £000s
14,863	Council dwellings	16,436
196	Other land and buildings	137
24	Vehicles, plant, furniture and equipment	90
15,083	**Total**	**16,663**

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:

2020/21 £000s		2021/22 £000s
	Expenditure:	
19,550	Council dwellings	19,829
1,216	Other land and buildings	5,354
0	Vehicle, plant, furniture and equipment	0
20,766	**Total capital expenditure**	**25,183**
	Funded by:	
0	Borrowing	0
(1,757)	Capital Receipts Reserve	(2,500)
(397)	Capital grants	(1,508)
(3,529)	Direct revenue financing	(4,512)
(15,083)	Major Repairs Reserve	(16,663)
(20,766)	**Total funding**	**(25,183)**

6. Revaluations

The Council values its dwellings every year using the EUV-SH basis. During the financial year, the valuation process resulted in a credit to the HRA of £11.132m relating to valuation gains (2020/21: a charge of £9.575m), as shown below:

2020/21 £000s		2021/22 £000s
	Revaluation losses / (reversals of previous losses) recognised in the HRA Income and Expenditure Statement:	
9,234	Council dwellings	(11,132)
341	Other land and buildings	0
	Impairments recognised in the HRA Income and Expenditure Statement:	
0	Council dwellings	0
0	Other land and buildings	0
9,575	**Total**	**(11,132)**

7. Major Repairs Reserve

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

31/03/21 £000s		31/03/22 £000s
0	**Opening Balance at 1 April**	**0**
(15,083)	Amounts transferred to MRR during the year:	(16,663)
0	Amounts transferred from the MRR during the year	0
15,083	Capital expenditure on land, houses & other property	16,663
0	**Closing balance as at 31 March**	**0**

8. Item 8 adjustment

This amount comprises the capital asset charges accounting adjustment which is calculated in accordance with the *Item 8 Credit and Item 8 Debit (General) Determination for the year*:

2020/21 Amended £000s		2021/22 £000s
	Credit:	
6	Interest on notional cash balance	(9)
(9,575)	Revaluation of non-current assets	11,132
(9,569)		**11,123**
	Debit:	
12,580	Interest on loans	11,973
15,083	Depreciation	16,663
62	Debt management expenses	96
0	Premiums for early repayment of debt	0
9,575	Revaluation of non-current assets	(11,132)
37,300		**17,600**
27,731	**Total item 8 debit**	**28,723**

9. Provision for Uncollectable Debts

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

31/03/21 £000s		31/03/22 £000s
4,327	**Opening Provision for Uncollectable Debts at 1 April**	**4,793**
(287)	Uncollectable debts written off in year:	(693)
753	Additional contributions to uncollectable debts provision in year	675
4,793	**Provision for Uncollectable Debts as at 31 March**	**4,775**

10. Rent Arrears

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

31/03/21 £000s		31/03/22 £000s
6,399	Current Tenants	6,555
3,244	Former Tenants	3,416
9,643	**Total Arrears**	**9,971**

11. Housing Capital Receipts

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

2020/21 £000s		2021/22 £000s
2,841	Housing Capital Receipts received during the year	6,640
42	From disposals that took place after 1 April 2012 under Right to Buy	30
2,883	**Total Housing Capital Receipts**	**6,670**

Collection Fund Statement

2020/21 £000s		2021/22 £000s Business rates	Council tax	TOTAL
	Income			
(108,105)	Income from council tax	0	(114,211)	(114,211)
(39,018)	Income from business rates	(69,913)	0	(69,913)
0	Reconciliation adjustments	0	0	0
(147,123)	**Total income**	**(69,913)**	**(114,211)**	**(184,124)**
	Expenditure			
	Apportionment of previous year deficit/(surplus):			
0	Central Government	(22,038)	0	(22,038)
1,620	Gateshead Council	(21,597)	(328)	(21,925)
76	Tyne and Wear Fire and Rescue Authority	(441)	(15)	(456)
124	Northumbria Police and Crime Commissioner	0	(25)	(25)
1,820		**(44,076)**	**(368)**	**(44,444)**
	Precepts, demands and shares:			
43,084	Central Government	41,849	0	41,849
138,863	Gateshead Council	41,012	100,515	141,527
8,048	Tyne and Wear Fire and Rescue Authority	837	4,495	5,332
4,405	Northumbria Police and Crime Commissioner	0	7,550	7,550
296	Transitional protection payments payable	1,168	0	1,168
194,695		**84,866**	**112,560**	**197,426**
	Less charges to Collection Fund:			
536	Write-off of uncollectable amounts	434	1,172	1,606
2,347	Increase / (decrease) in Impairment of debtors allowance	1,050	222	1,272
0	Increase / (decrease) in provision for appeals	0	0	0
273	Cost of collection	272	0	272
0	Reconciliation adjustments	0	0	0
3,156		**1,756**	**1,394**	**3,150**
52,548	**(Surplus)/deficit arising during the year**	**(27,367)**	**(625)**	**(27,992)**
(5,961)	**(Surplus)/deficit brought forward 1 April**	**45,685**	**902**	**46,587**
46,587	**(Surplus)/deficit carried forward 31 March**	**18,318**	**277**	**18,595**
	Attributable to:			
22,842	Central Government	9,159	0	9,159
23,191	Gateshead Council	8,976	247	9,223
493	Tyne and Wear Fire and Rescue Authority	183	11	194
60	Northumbria Police and Crime Commissioner	0	19	19
46,587		**18,318**	**277**	**18,595**

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).

2020/21		2021/22
51.2p	Multiplier - rate in the pound	51.2p
£221.111m	Total non-domestic rateable value	£216.407m

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	
		2020/21	2021/22	2020/21	2021/22
Band A - Up to £40,000 (disabled reductions)	5/9	109	146	61	81
Band A - Up to £40,000	6/9	35,509	34,781	23,670	23,187
Band B - £40,001 to £52,000	7/9	10,427	10,345	8,109	8,046
Band C - £52,001 to £68,000	8/9	13,613	13,629	12,099	12,114
Band D - £68,001 to £88,000	9/9	5,202	5,665	5,202	5,665
Band E - £88,001 to £120,000	11/9	2,245	2,309	2,744	2,822
Band F - £120,001 to £160,000	13/9	799	805	1,154	1,162
Band G - £160,001 to £320,000	15/9	354	351	590	585
Band H - Over £320,000	18/9	16	15	32	30
		68,274	**68,046**	**53,661**	**53,692**

	2020/21	2021/22
Council tax for a band D property	£2,044.88	£2,144.40

Part 3: Accompanying documents

Annual Governance Statement 2021/22

Approved by Audit and Standards Committee on 28 June 2022

Introduction

This statement meets the requirements of Regulation 6 (1) of the Accounts and Audit (England) Regulations 2015 in relation to the publication of an Annual Governance Statement (AGS). It explains how the Council's arrangements for the governance of its affairs complied with its Local Code of Corporate Governance for the year ended 31 March 2022.

Scope of Responsibility

Gateshead Council (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 Accounts and Audit (England) Regulation 2015 require the Council to prepare an AGS, which must accompany the Statement of Accounts. 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 and performance.

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 published on the Council's website at Local Code of Governance.

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 2022 and up to the date of approval of the Statement of Accounts 2021/22.

The Governance Framework

The key elements of the Council's governance arrangements are detailed in the Council's Local Code of Governance. This sets out the key documents and processes that determine the way the Council is directed and controlled to meet the seven key principles of the CIPFA/SOLACE Framework.

The Council continues to face a number of challenges managing significant budgetary pressures, whilst meeting increasing demand as a consequence of demographic changes and a rapidly changing policy context, including the current and ongoing impacts resulting from the COVID-19 pandemic, which will require effective long term planning to ensure a review of lessons learned, an effective recovery and mitigation of the financial impacts.

The following sections demonstrate assurance that the Council has complied with each of these principles in practice, and also highlights where we further improved our corporate governance arrangements during 2021/22.

Organisational Structures

The Council's objectives are set out in the strategic approach, Making Gateshead a Place Where Everyone Thrives, which provides a framework to deliver the priorities of the Council's Thrive policy and the six policy objectives of the Health and Wellbeing Strategy.

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

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

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

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

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

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

An additional review requirement for this year is in relation to the new CIPFA Financial Management (FM) Code. Whilst the Code does not have legislative backing, CIPFA's judgement is that compliance with it is obligatory if a local authority is to meet its statutory responsibility for sound financial administration, which will be closely considered by the Council's external auditors. The FM Code contains six principles against which all financial management should be judged, which are then translated into standards which should be the minimum that an authority seeks to achieve. Each authority is expected to determine the extent to which it complies with the FM Code by way of a self-assessment, and to identify what action it may wish to take to better meet the standards that the FM Code sets out.

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

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

The Council maintains an independent Internal Audit Service. The Internal Audit Service is required to objectively examine, evaluate and report upon the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of the Council's resources. This is achieved through the delivery of a risk based annual audit plan which is agreed by the Audit and Standards Committee and monitored on a quarterly basis. The Chief Internal Auditor also prepares an annual report based on the work of the Internal Audit Service which provides an independent and objective opinion on the Council's control environment based on the work undertaken by the Service throughout the year. During 2019/20, the Internal Audit Service was externally assessed for compliance with Public Sector Internal Audit Standards. The outcome of the assessment was that the service is substantially compliant with the requirement of PSIAS and the CIPFA Application Note. There were some minor areas for continued improvement identified. All the areas were included in an action plan, progress against which is reported to the Audit and Standards Committee. The results of the assessment were reported to the Audit and Standards Committee in June 2020.

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

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

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

- Community Shielding Hubs continued to coordinate identification of demand and delivery of support.
- Business Impact Assessments were reviewed at two key points in the year, and Business Continuity Plans developed for all critical activities to minimise the risk of interruptions in the delivery of those activities.
- Key decision making meetings with Councillors conducted remotely using virtual conferencing technology.
- COVID-19 Response Team established to coordinate delivery and resourcing of Council COVID related activities including Enforcement, Business Contact, Resident Contact, Contact Tracing, Health Data, Testing and Vaccinations, Procurement, Finance, Governance and Information Routes, Comms, LRF, Excess Deaths, Local Traffic & Pedestrian Management, Events, Free School Meal Provision in Holidays, along with resilience arrangements to mitigate threats to business continuity.

Review of Effectiveness

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

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

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

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

- The opinion of the Members of the Cabinet;
- The work of senior managers within the Council who have responsibility for the development and maintenance of the governance environment;
- An assessment of the Systems of Internal Audit, incorporating a review of the Internal Audit Service and the Audit and Standards Committee, and the Chief Internal Auditor's annual report;
- Corporate Risk Management arrangements;

- The robustness of Performance Management and Data Quality information;
- Views of the external auditor and other external inspectorates;
- Assurance from the Strategic Director, Corporate Services and Governance on the operation of Council's Legal and Regulatory Framework;
- Assurance from the Strategic Director, Resources and Digital on the operation of the Council's financial controls;
- Partnership governance arrangements; and
- Counter fraud and corruption arrangements.

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

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

The Council's Local Code of Governance is reviewed regularly and was last approved by the Audit and Standards Committee on 31 January 2022. Assurance was sought from Councillors who served on the Cabinet during 2021/22, 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 28 June 2022 in which all Members of the Cabinet considered that governance arrangements are effective.

Service Directors have carried out self-assessments of the processes, controls and governance arrangements they have in place to allow them to achieve their service objectives including consideration of relevant assessments to ensure that no aspects of governance were adversely affected by the impact of COVID-19 and where necessary arrangements were put in place to ensure the Council's activities continued to be conducted appropriately. These included considerations of the effectiveness of internal controls. A report was presented to the Audit and Standards Committee on 28 June 2022 which concluded that, based on the self-assessments, Service Directors agree that effective controls were in place.

The Chief Internal Auditor reports to the Council's Strategic Director, Resources and Digital, but to ensure independence has direct and unfettered access to the Chief Executive, the Strategic Director, Corporate Services and Governance (Monitoring Officer), and the Chair of the Audit and Standards Committee. A review of the effectiveness of Internal Audit, incorporating the Internal Audit Service and the Audit and Standards Committee, has been undertaken and was reported to the Audit and Standards Committee on 28 June 2022. This included an assessment of compliance with the CIPFA Statement on the Role of the Head of Internal Audit (2019) and compliance with Public Sector Internal Audit Standards. This review concluded that the Council's system of internal audit is considered to be effective, which in turn allows the opinion of the Chief Internal Auditor to be relied upon.

The Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control, risk management and governance arrangements which was incorporated in the Annual Internal Audit Report to the Audit and Standards Committee on 28 June 2022. This opinion is based on 73 audit reviews undertaken during the year which found all systems reviewed to be operating well or satisfactorily, except in nine 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 2021/22 as a result of the work of the Internal Audit Service.

The Annual Risk Management Report was presented to the Audit and Standards Committee on 28 June 2022 which concluded that risk management arrangements are effective.

The Annual Report on Counter Fraud Arrangements was presented to the Audit and Standards Committee on 28 June 2022 which concluded that counter fraud arrangements are effective.

The Council's Performance Management Framework (PMF) was reviewed in 2020/21 with a new approach developed and introduced in 2021/22 to better reflect the current priorities of the Council and to enable it to manage performance, identify where and how to improve it, and to effectively direct resources to and demonstrate progress in delivery of its Thrive priorities. 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 PMF. Based on the information provided during the year and internal reviews of data quality, effective controls are in place.

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

Assurance on the effectiveness of the Council's legal and regulatory framework has been provided by the Strategic Director, Corporate Services and Governance, who as Monitoring Officer has a legal duty to ensure the lawfulness and fairness of decision-making within the Council. Compliance with established policies, procedures, laws and regulations is ensured by the requirement in the Constitution to give the Chief Executive, the Monitoring Officer and the Chief Finance Officer the opportunity to comment on every committee report submitted to a decision-making body. No areas of significant non-compliance have occurred during 2021/22.

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

The Council undertook a self-assessment of compliance with the CIPFA Financial Management Code during 2021/22. The assessment considered seventeen financial management standards grouped into seven sections underpinning the six principles. Following the self-assessment, the Council is considered to be compliant with the Financial Management Code, with some areas identified requiring improvement to achieve what is considered best practice.

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

Update on improvements identified in the 2020/21 Annual Governance Statement

No.	Actions to be Taken	Links to the Local Code of Corporate Governance	Responsible Officer	Timescale
1	Online Guide to Gateshead Council to be updated to ensure it continues to reflect the management structure of the Council and the Services provided to assist stakeholder scrutiny and to assist new ways of working.	Scrutiny	Strategic Director, Corporate Services and Governance	
Update: **This action is complete** The importance of the Guide to Gateshead Council is fully acknowledged. In recognition that the senior management structure would alter and evolve further in 2022, the decision was taken to defer substantive changes to the Guide to Gateshead Council. This will now be altered during the summer of 2022 to reflect the agreed changes within Children, Adults and Families group. A briefing to reflect such changes has already been circulated to councillors, employees and stakeholders – so this is a broad awareness of the management changes. An announcement will be shared once the Guide has been published with these changes to highlight awareness.				
2	A review of lessons learned from the response to COVID-19 to be conducted.	Resilience	Corporate Management Team	
Update: **This action is complete** Operating procedures were continuously reviewed during the year to ensure they continued to make the best use of finite resources within the COVID operating restrictions. Two reviews of Business Impact Assessments and Business Continuity Plans were conducted during the year to ensure developments in working practices and the operating environment, including COVID impacts were captured and provide assurance on resilience of critical activities. Each Overview and Scrutiny Committee received regular reports and presentations during 2021/22 setting out the impact of the Covid-19 pandemic on areas relevant to their remit. This reporting included Services identifying impact on service delivery and how these either had or would be informing future ways of working.				

Proposed Governance Improvements required during 2022/23

As a result of the review of governance arrangements, and the work of both internal and external audit, three improvement actions have been identified to further strengthen governance arrangements in 2022/23. These are shown in the following table, along with the relevant link to the Local Code of Corporate Governance for reference:

No.	Actions to be taken	Lead Officer and Timescale
1	Further strengthen compliance with the CIPFA Financial Management Code	Strategic Director, Resources and Digital, March 2023
Principle F: Managing risks and performance through robust internal control and strong public financial management, Sub Principle: strong public financial management		
2	Implement necessary changes arising from the Revised CIPFA Good Governance Framework	Strategic Director, Corporate Services and Governance January 2023
To ensure the Local Code of Corporate Governance continues to comply with best practice so that resources are directed in accordance with agreed policy and according to priorities, that there is sound and inclusive decision making and that there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.		
3	Revise Strategic Risk Register to reflect risks to delivery of Strategic Health and Wellbeing outcomes	Strategic Director, Resources and Digital, January 2023
Principle F: Managing risks and performance through robust internal control and strong public financial management, Sub Principle: Managing Risk		

Opinion on Governance Arrangements

Based on the review of the Council's governance arrangements during 2021/22, including the internal control and risk management environments, the opinion is that the Council's governance arrangements continue to be regarded as fit for purpose.

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

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

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Standards Committee on 28 June 2022 and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

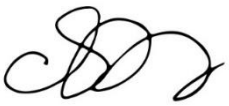
Signed:

Councillor Martin Gannon

Leader of the Council

Dated: 30 June 2022

Signed:



Sheena Ramsey

Chief Executive

Dated: 30 June 2022

Independent Auditor's Report

to the Members of Gateshead Council

To be included on completion of the external audit

Glossary of Terms

Accounting policies *see Note 1*.

Accruals: the accruals basis of accounting requires that the non-cash effects of transactions be recognised in the period that they affect, rather than when cash is paid or received. An accrual is a sum included in the final accounts to cover income or expenditure attributable to an accounting period for goods supplied and received or works done, but for which payment has not been made / received by the end of the period.

Accumulated Absences Account *see Note 6b.*

Actuarial gains and losses are changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pensions Reserve as *Other Comprehensive Income and Expenditure.*

Amortisation is the process of writing-off an intangible asset over its projected life. It is equivalent to depreciation of tangible non-current assets.

Appropriations are transfers to/from the Council's reserves from the Comprehensive Income and Expenditure Statement or the HRA. In addition, appropriations include the reconciling transactions needed to convert expenditure to amounts required from council tax.

Assets: an asset is "a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity" (IASB definition). Current assets change in value on a day-to-day basis (e.g. cash). Non-current assets yield benefit to the Council and the services it provides for a period of more than one year (e.g. land and buildings).

Available for sale assets are non-operational assets that meet the following criteria:

- They are available for immediate sale in their present condition subject to terms that are usual and customary for sales of such assets (or disposal groups);
- The sale is highly probable, with the Council committed to a plan to sell the asset;
- An active programme to locate a buyer and complete the plan has been initiated; and
- The asset (or disposal group) must be actively marketed for a sale at a price that is reasonable in relation to its current fair value. The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification and action required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Bad debts and bad debt provisions: bad debts are those debts which are uncollectable, due to debtors going bankrupt or absconding; bad debt provisions are funds set aside to provide for debtors failing to pay.

Best Value provides a framework for the planning, delivery and continuous improvement of Council services. The overriding purpose is to establish a culture of good management in local government for the delivery of efficient, effective and economic services that meet the users' needs.

Under Best Value, the Council has a duty to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness". This improvement involves consideration of costs, making the most of money spent, and making sure that services meet the needs of communities and authorities' priorities.

Budgets are statements defining the Council's policies over a specified period of time in terms of finance. The budget also includes statements about the use of other resources (e.g. numbers of staff) and the methods of financing expenditure.

Capital Adjustment Account *see Note 6b.*

Capital charges are charges to the Comprehensive Income & Expenditure to reflect the cost of using assets. They are based upon depreciation, which represents the cost of using the asset**.**

Capital expenditure is expenditure on the acquisition of a non-current asset or expenditure which adds to and not merely maintains the value of an existing non-current asset.

Capital grants and contributions are funds provided by the government or other bodies to undertake work of a capital nature (i.e. to create a non-current asset).

Capital Grants Unapplied reserve *see Note 6b.*

Capital receipts are proceeds from the sale of Council-owned land and buildings or from the repayment of loans and advances. A major element of the Council's capital receipts is from the sale of council dwellings under the "Right to Buy" legislation.

Capital Receipts Reserve *see Note 6b.*

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

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

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

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

Collection Fund Adjustment Account *see Note 6b.*

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

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

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

Constructive obligation is an obligation that derives from an authority's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the Council has indicated to other parties that it will accept certain responsibilities, and as a result, the Council has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

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

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

Contingent liabilities are either**:**

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

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

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

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

Creditors are amounts owed by the Council for goods and services received but where payment has not been made at the end of the financial year (i.e. 31 March). Creditors also include *receipts in advance*, where the Council receives income from external bodies or individuals in advance of service provision (e.g. payment of 2022/23 council tax bill in 2021/22).

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

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

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

which the employees worked.

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

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

Deferred Capital Receipts *see Note 6b.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Instruments Adjustment Account *see Note 6b.*

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

General Fund *see Note 6b.*

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

Part 3: Glossary of Terms

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

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

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

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

IASs (International Accounting Standards) are accounting pronouncements issued by the International Accounting Standards Board (IASB). They have been adopted by the UK public sector in a move to make it more comparable with both the private sector and the international community as a whole.

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

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

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

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

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

Investments are separated into the following categories:

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

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

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

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

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

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

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

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

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

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

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

Major Repairs Reserve *see Note 6b.*

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

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

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

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

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

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

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

Operating lease is a lease other than a finance lease.

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

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

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

Pensions Reserve *see Note 6b.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Revaluation Reserve *see Note 6b.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Contacts

Primary contacts:

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

Web links:

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

Gateshead Council's Statement of Accounts was produced by:

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