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Gateshead Council

AUDIT AND STANDARDS COMMITTEE AGENDA

Monday, 30 October 2023 at 4.00 pm in the Blaydon Room

From the Chief Executive, Sheena Ramsey

Item	Business
1	**Apologies for Absence**
2	**Minutes** (Pages 3 - 6) The Committee is asked to approve, as a correct record, the minutes of the meeting held on 26th September 2023.
3	**Declarations of Interest** Members of the Committee are invited to declare interests in any agenda items.
4	**Corporate Risk Management 2023/24 Quarter 2 Update** (Pages 7 - 10) Report of the Strategic Director, Resources and Digital
5	**Treasury Management - Performance to 30 September 2023** (Pages 11 - 18) Report of the Strategic Director, Resources and Digital
6	**Achievement of Going Concern Status 2022-23** (Pages 19 - 24) Report of the Strategic Director, Resources and Digital
7	**Audit Completion Report Year End 31 March 2023** (Pages 25 - 188) Report of the Strategic Director, Resources and Digital
8	**Exclusion of the Press and Public** The Committee may wish to exclude the press and public from the meeting during consideration of the exempt agenda in accordance with paragraphs 7 of Schedule 12A to the Local Government Act 1972.
9	**Counter Fraud Update** (Pages 189 - 194) Report of the Strategic Director, Resources and Digital

10 **Internal Audit Plan Progress 2023/24 Quarterly Monitoring Report to September 2023** (Pages 195 - 202)

Report of the Strategic Director, Resources and Digital

11 **Date and time of next meeting**

Tuesday 30th January 2023 at 4.00 pm

Contact: Kate Lowes, Tel: 0191 433 4244,
Email: democraticservicesteam@gateshead.gov.uk, Date: Friday, 20 October 2023

GATESHEAD METROPOLITAN BOROUGH COUNCIL

AUDIT AND STANDARDS COMMITTEE MEETING

Tuesday, 26 September 2023

PRESENT: Councillor R Mullen (as Chair)

Councillor(s): R Beadle, L Green, H Kelly and J McElroy
Mr I Dormer (Independent Member)

APOLOGIES: Councillor(s): L Kirton and Mr Stuart Bell (Independent Member)

ASC465 MINUTES

The minutes of the last meeting held on the 20th of July 2023 were approved as a correct record, with the amendment that Mr Ian Dormer (Independent member) was present at the meeting on the 20th June but submitted apologies for the meeting on the 20th July.

ASC466 DECLARATIONS OF INTEREST

There were no declarations of interest.

ASC467 OVERSIGHT OF MANAGEMENT PROCESSES 2022/23

The Committee received a report detailing how the Audit and Standards Committee exercises oversight of management processes in certain areas of governance to provide assurance to the external auditors.

The areas of governance under consideration, together with an explanation of how oversight is exercised by the Committee was detailed and attached to the main report at Appendix 1.

RESOLVED: i) That the information be noted.

ii) The Committee considered the evidence in Appendix 1 and agreed that on this basis an effective of oversight is in place.

ASC468 ANNUAL GOVERNANCE STATEMENT 2022/23 - INTERNAL AUDIT REVIEW OF MANAGERS' ASSURANCES

The Committee received a report which informed them of the outcome of the work by the Internal Audit and Risk Service in reviewing in the assurances provided by Service Directors to inform 2022/23 Annual Governance Statement.

The Audit and Standards Committee agreed on 7 March 2023 an assurance framework which would provide evidence for the completion of the 2022/23 Annual Governance Statement. Assurances from managers on the effectiveness of controls they have in place were a fundamental part of this framework.

The 2022/23 Annual Governance Statement audit was carried out using a theme-based approach across the Council. All Service Directors were required to provide evidence to support their declarations made on the Assurance Statement in response to the following questions:

- A clear up to date business plan is in place which demonstrates alignment to the Council's strategic priorities; and
- Management and staffing structures are clearly defined and responsibilities including job descriptions are clearly established. There is a competent and adequately trained workforce to deliver the objectives and priorities of the Service.

The audit concluded that systems and controls were operating well, and no recommendations have been made.

The overall conclusion of this work is that the systems and processes for the completion of the Managers' Assurance Statements are effective and that they provided a good level of assurance for the 2022/23 Annual Governance Statement.

RESOLVED: That the information be noted.

ASC469 MAZARS EXTERNAL AUDIT PROGRESS REPORT

The Committee received a report updating them on the progress and current findings of the audit of Gateshead's Statement of Accounts 2022/23 by the Council's external auditor Mazars.

The report outlined:
- Audit progress
- Areas outstanding

The report was attached for information at Appendix A.

RESOLVED: That the information be noted.

ASC470 DATE AND TIME OF NEXT MEETING

Tuesday 31st October 2023 at 4pm.

Chair…………………………..

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Gateshead Council

Audit and Standards Committee
30 October 2023

Title of Report: **Corporate Risk Management 2023/24 - Quarter 2 Update**

Report of: **Darren Collins, Strategic Director, Resources & Digital**

Purpose of the Report

1. This report updates the Committee on Corporate Risk Management developments during the period 1 July to 30 September 2023.

Background

2. Quarterly reporting to those with the responsibility for the oversight of risk management issues complies with the principles of good corporate governance. It is also embodied in the Corporate Risk Management Policy. This was last approved by Council on 21 May 2013 and is kept under review. Whilst it has been amended to reflect minor structural changes and roles in that time, it remains relevant and fit for purpose.

3. The report covers progress against the Corporate Risk Management Developmental Objectives for 2023/24, as cited in the Corporate Risk Management Annual Report 2022/23, and any other risk management issues emerging within the quarter under consideration.

Strategic Risk Management

4. In November 2018, Cabinet and Council approved a revised Strategic Risk Register which had been presented to Audit and Standards Committee on 1 October 2018. The Corporate Management Team has continued to ensure strategic risks are responded to in accordance with the Risk Management Policy, with risks and controls being recorded for inclusion within the Strategic Risk Register.

5. There have been no changes to the Strategic Risk Register in the second quarter 2023/24. The current Strategic Risk Register is attached for information at Appendix 1.

Operational Risk Management

6. Operational risks identified within the Council are recorded on the operational risk register. Work continues to ensure operational risk management activity within services continues to align with service objectives.

7. Service Risk Coordinators, whose role it is to support and champion risk management activity within their Services, are working with the Corporate Risk Officer to support risk owners with evaluating existing operational risk assessments. The focus of this work is on ensuring the assessments contain the required and correct information to inform the management response.

8. To further strengthen mitigation of the risks of a successful cyber-attack, several IT related policies have been drafted by the Cyber Security Group. Further updates will be provided on this work as it progresses.

Business Continuity Management

9. In accordance with the Council's Business Continuity Policy all Services are required to continuously assess the risk of their activities being disrupted and to develop cost effective business continuity plans.

10. All Business Impact Assessments have been reviewed bi-annually since the start of the Pandemic in March 2020 with the most recent review in May 2023, with the next review planned for action by Services during October into November 2023. This exercise uses the agreed corporate Business Continuity Framework to allow Services to assess which activities might require additional support to strengthen resilience and estimate the officer numbers and skills that might be needed as we moved between the spring and summer months and those of autumn and winter.

11. Business Continuity Plans are revised accordingly to mitigate and, as far as possible, update key personnel and shape the response to any threats to the delivery of key activities with a focus on activity that could not be interrupted for more than 48 hours without critical impact.

12. Quarterly audit and risk reports are provided to Group Management Teams to highlight the critical activities for which services have developed continuity plans.

Corporate Risk and Resilience Group

13. The Corporate Risk and Resilience Group last met 10 October 2023. The following items were considered:
    - Review of Business Impact Assessment and Business Continuity Plan seasonal refresh.
    - Update on Cyber Incident Awareness event presented to the Corporate Leadership Team.
    - Service resilience in the event of a loss of IT services for an extended period with the delivery of an exercise in a box session with the members of the Risk and Resilience Group and invited key officers on 16 October 2023. This aimed to generate discussion on the issues Services might be faced with and development of potential mitigations to minimise any impact on service provision.
    - Updates from Groups and Services.

Recommendation

14. It is recommended that the Committee note the report and consider the effectiveness of the Council's risk management arrangements.

Contact: Craig Oakes Ext. 3711

Appendix 1

SR Ref	Risk	Risk owner	Gross Risk Rating Pre-mitigation	Current risk post mitigation: Likelihood	Impact	Risk Rating
1	Failure to address the financial gap in the Council's budget and achieve the target within the Medium-Term Financial Strategy resulting in non-achievement of Council strategic priority of Making Gateshead a Place Where Everyone Thrives.	CMT	Red 16	Moderate 3	High 4	Amber 12
2	Failure to manage demand and expectations could result in the Council not achieving its Thrive agenda.	CMT	Red 16	Moderate 3	Medium 3	Amber 9
3	Failure to safeguard vulnerable children and adults	CMT	Red 16	Unlikely 2	High 4	Amber 8
4	Failure to attract inward investment and deliver sustainable economic growth.	CMT	Amber 12	Moderate 3	Medium 3	Amber 9
5	Non-compliance with statutory requirements resulting in prosecution and subsequent penalties.	CMT	Amber 12	Moderate 3	Medium 3	Amber 9
6	Failure to address workforce planning and resourcing requirements impacting on service delivery.	CMT	Red 16	Moderate 3	Low 2	Green 6
7	Failure to provide a response during a Major incident or business interruption affecting availability of the Council's resources and impacting on ability to deliver critical services or an impact on a community.	CMT	Amber 8	Moderate 3	Low 2	Green6
8	The implications of EU Exit potentially affecting the availability of Council's resources to deliver services which may impact on communities.	CMT	Red 16	Likely 4	Medium 3	Amber 12
9	The Council is hit by a Cyber-attack that compromises the confidentiality, integrity and availability of information and systems.	CMT	Red 16	Moderate 3	High 4	Amber 12
10	Failure to comply with the housing regulatory standards applicable to Local Authorities.	Sandra Watson, Service Director, Housing Compliance	Red 20	Moderate 3	Medium 3	Amber 9

Strategic Risk Map

Impact	Unlikely (2)	Moderate (3)	Likely (4)	Almost Certain (5)
Extreme (7)				
High (4)	• (SR3)	• (SR1) • (SR9)		
Medium (3)		• (SR2) • (SR4) • (SR5) • (SR10)	• (SR8)	
Low (2)		• (SR6) • (SR7)		
	Likelihood			

SR	Risk description	Risk owner
1	Failure to address the financial gap in the Council's budget and achieve the target within the Medium-Term Financial Strategy resulting in non-achievement of Council strategic priority of Making Gateshead a Place Where Everyone Thrives.	CMT
2	Failure to manage demand and expectations could result in the Council not achieving its Thrive agenda.	CMT
3	Failure to safeguard vulnerable children and adults	CMT
4	Failure to attract inward investment and deliver sustainable economic growth.	CMT
5	Non-compliance with statutory requirements resulting in prosecution and subsequent penalties.	CMT
6	Failure to address workforce planning and resourcing requirements impacting on service delivery.	CMT
7	Failure to provide a response during a Major incident or business interruption affecting availability of the Council's resources and impacting on ability to deliver critical services or an impact on a community.	CMT
8	The implications of EU Exit potentially affecting the availability of Council's resources to deliver services which may impact on communities.	CMT
9	The Council is hit by a Cyber-attack that compromises the confidentiality, integrity and availability of information and systems.	CMT
10	Failure to comply with the housing regulatory standards applicable to Local Authorities.	Sandra Watson, Service Director, Housing Compliance

Gateshead Council

REPORT TO AUDIT AND STANDARDS COMMITTEE
30 OCTOBER 2023

TITLE OF REPORT: **Treasury Management – Performance to 30 September 2023**

REPORT OF: **Darren Collins – Strategic Director, Resources & Digital**

Purpose of the Report

1. The purpose of this report is to review Treasury Management performance for the six months to 30 September 2023, covering investments and borrowing. This is consistent with approved performance management arrangements.

Background

2. The mid-year performance of the Treasury Management Service is reported in line with CIPFA's Code of Practice on Treasury Management and the Council's Treasury Policy Statement and Treasury Strategy which was approved by Council on 24 March 2023.

3. The Council operates a balanced approach, and this means broadly that cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing security and adequate liquidity initially before considering optimising investment return.

4. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations.

5. Accordingly, treasury management is defined as:

   "The management of the Council's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

6. The primary objective of the investment strategy is to safeguard the Council's assets with a secondary objective of obtaining an optimum rate of return on investments and minimising the costs of borrowing.

Treasury Management Strategy Statement

7. The Treasury Management Strategy Statement (TMSS) for 2023/24 was approved by Council on 24 March 2023. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

Investment Performance

8. The latest projection of gross investment income for 2023/24 based on interest earned to date and expected interest to March 2024 is £5.102m, compared to an original estimate of £4.560m.

9. This gross investment interest is adjusted to account for £0.700m interest payable to third parties (budget £0.742m), temporary loans of £0.031m (budget £0.011m) and interest receivable of £1.273m from various third parties (budget £1.273m). This gives a projected net interest to the General Fund 2023/24 of £5.644m compared to the budget of £5.080m. The variance to budget is mainly as a result of higher levels of interest received due to higher increases to the Bank of England base rate than anticipated when the 2023/24 budget was set.

The Economy

10. Since the historically low bank base rates during the covid pandemic interest rates have been on an upward curve from December 2021. The Bank of England's Monetary Policy Committee have agreed the following increases so far in 2023/24:

Date	Base Rate
01 April 2023	4.25%
11 May 2023	4.50%
23 June 2023	5.00%
04 August 2023	5.25%

It is anticipated that base rate increases have peaked at 5.25% and are projected to fall slightly in the second half of the current financial year to 5.00%.

Rate of Return

11. The average rate of return is monitored for each investment type the Council enters into and these are used to calculate an average rate of return for the year to date. The current rate of return is 4.85%, which is an improvement on the original estimate of 3.82%.

12. The quarterly LINK Asset Services Investment Benchmarking report assesses both the rate of return and the risk of the counterparty to calculate a weighted average rate of return, which is used for comparison across regional Local Authorities. In the most recent report received at June 2023 the Council achieved a weighted average rate of return of 4.81% on its investments for Quarter 1 2023/24 which is above the risk adjusted expectations (4.20% to 4.54%) defined in the Benchmarking Report for our Group.

13. The average rate of return would be expected to increase during the remainder of the financial year as low interest investments mature, increased stability in the bank base rates, investment balances are projected to remain consistent and new deposits placed with higher yielding returns.

14. In the current financial year the economic conditions in the investment market improved and the Council will likely exceed levels of interest rates achieved in recent financial years. The majority of available interest rates up to 12 months duration are at or around 5.60% compared to the bank base rate of 5.25% (at 30

September 2023). No further increases in the Bank Base Rate are forecast during the current financial year ending 31st March 2024, with investment returns forecast to remain fairly consistent in the short and medium term.

Borrowing

14. The total borrowing for the Council and HRA as at 30 September 2023 was £684.966m, which was within the operational borrowing limit of £855.000m. This borrowing is made up of £636.966m Public Works Loans Board (PWLB) loans and £48.000m market loans.

15. The Treasury Strategy estimates for the 2023/24 financial year were based on a total borrowing requirement of £81.573m with £62.406m relating to the GF and £19.166m the HRA. Due to the council holding high levels of cash reserves there has been no borrowing taken in the year to date. The timing of any further borrowing will depend on cash flow requirements to support the capital programme.

16. The current forecast for interest payable on borrowing is allocated to the General Fund and the Housing Revenue Account (HRA) as shown in the following table:

	General Fund	HRA
Forecast Interest Payable	£13.591m	£12.228m
Average rate of interest	3.38%	3.79%

This represents a gross saving of £0.828m on the original estimate, of which £0.793m is a saving for the General Fund and £0.035m additional cost to the HRA.

Compliance with Treasury and Prudential Limits

17. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30th September 2023, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2023/24 as demonstrated in Appendix 1.

18. **Liability Benchmark**

A new prudential indicator has been introduced for 2023/24, the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum and Appendix 2 shows the current position as 30 September 2023.

Summary of Mid-Year Performance

19. The projected net impact of investment and borrowing activity on the revenue budget in 2023/24 is an underspend of £1.425m, comprising £1.795m General Fund underspend and £0.370m HRA overspend.

	General Fund			HRA		
	Estimate £m	Projected Outturn £m	Variance £m	Estimate £m	Projected Outturn £m	Variance £m
Investments	(5.080)	(6.083)	(1.003)	(0.555)	(0.150)	0.405
Borrowing	13.591	12.798	(0.793)	12.228	12.193	(0.035)
Premia	0.462	0.463	0.001	0.000	0.000	0.000
Net Position	**8.973**	**7.178**	**(1.795)**	**11.673**	**12.043**	**0.370**

20. Current interest rates for investments are around 5.60% for 12 months and 5.50% for 6 months, allowing the Council to maintain existing returns from investing cash balances. PWLB rates are currently higher than budgeted and will be monitored to ensure borrowing is taken at the optimum time to minimise the number of long term loans entered into at the current higher level of interest rates.

21. The balance of external and internal borrowing is generally driven by market conditions. The council will continue to monitor the market to identify any opportunity to repay borrowing earlier than planned, subject to any discounts received.

Recommendation

The Committee is requested to note the Treasury Management Performance to 30 September 2023, prior to submission to Cabinet.

Maturity Profile of Fixed Rate Borrowing

The following table shows that Gateshead is within the prudential limits set for the maturity profiles of fixed rate borrowing.

Fixed Rate Borrowing				
	Lower	**Upper**	**Actual @ 30 September**	**Max Actual to date**
< 1 yr	0%	15%	2.78%	2.78%
1 – 2 yrs	0%	19%	2.29%	2.99%
2 – 5 yrs	0%	22%	8.42%	9.15%
5 – 10 yrs	0%	22%	10.98%	11.71%
10 – 20 yrs	0%	17%	5.04%	6.50%
20 – 30 yrs	0%	41%	6.65%	6.65%
30 – 40 yrs	0%	42%	32.73%	33.46%
40 – 50 yrs	0%	41%	29.64%	33.29%
50 yrs +	0%	11%	0.00%	0.00%

Maturity Profile of Variable Rate Borrowing

The following table shows that Gateshead is within the prudential limits set for the maturity profiles of variable rate borrowing.

Variable Rate Borrowing				
	Lower	**Upper**	**Actual @ 30 September**	**Max Actual to date**
< 1 yr	0%	16%	1.46%	2.92%
1 – 2 yrs	0%	11%	0.00%	0.00%
2 – 5 yrs	0%	11%	0.00%	0.00%
5 – 10 yrs	0%	11%	0.00%	0.00%
10 – 20 yrs	0%	11%	0.00%	0.00%
20 – 30 yrs	0%	11%	0.00%	0.00%
30 – 40 yrs	0%	11%	0.00%	0.00%
40 – 50 yrs	0%	11%	0.00%	0.00%
50 yrs +	0%	11%	0.00%	0.00%

Operation and Authorised Limits (External Debt)

	£m
Operational Limit 2023/24	850.000
Authorised Limit 2023/24	865.000
Actual External Debt Outstanding 30 Sept 2023	684.966
Maximum Debt Outstanding to 30 Sept 2023	684.966

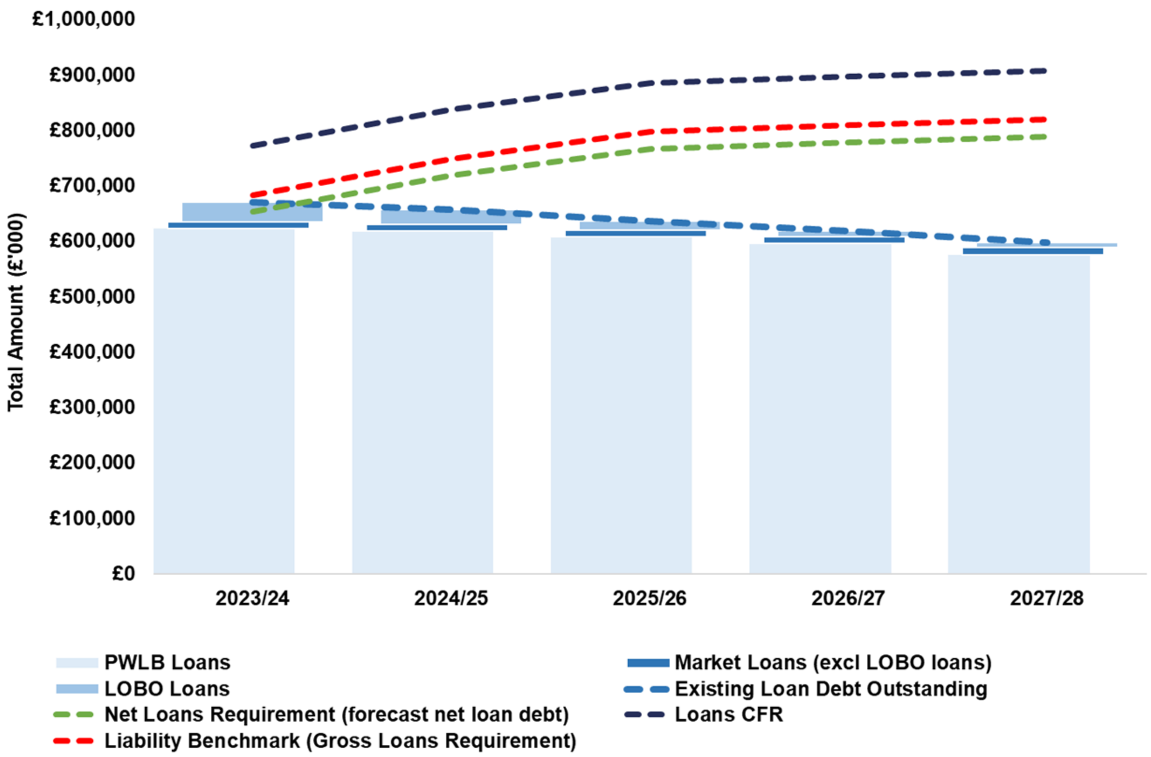
Non-Specified Investments

As part of the Annual Investment Strategy, the approved limits in respect of non-specified investments have been agreed. The limits and actual performance are detailed below for counterparties with ratings which fall short of the Council's high credit rating. Investments over 364 days are also classed as non-specified.

	Limits 2023/24	Actual Levels 30 Sep 2023	Maximum to date
Rated Not High	25.00%	0.00%	5.82%
Not Rated	0.00%	0.00%	0.00%
Over 364 days (max of 3 yrs.)	£15m / 20.00%	£0m / 0.00%	£0m /0.00%

Appendix 2

Liability Benchmark



The Liability Benchmark gross loans requirement, subject to using internal borrowing and maintaining £30m (liquidity allowance) in Treasury Management investments, is £683m compared to the existing loan debt of £671m, so external debt is circa £12m below the benchmark.

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Gateshead Council

AUDIT AND STANDARDS COMMITTEE
30 October 2023

TITLE OF REPORT: **Achievement of 'Going Concern Status' 2022/23**

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

Purpose of the Report

1. The purpose of this report is to consider the Council's status as a going concern and request Committee to agree this.

Background

2. As Local Authorities are created and abolished only by statutory changes there is an underlying assumption in the 2022/23 CIPFA/LASAAC Code of Practice on Local Authority Accounting (Accounting Code) that their accounts will be prepared on a going concern basis.

3. Authorities are required by Section 32 of the Local Government Finance Act 1992 to set a balanced budget. However, financial pressures within the local government sector mean that the Chief Finance Officer (section 151 officer) may need to consider whether action is required under section 114 of the 1988 Act, where the section 151 officer must report, following consultation with the Council's monitoring officer, to all authority's Councillors if they believe expenditure is likely to exceed incoming resources in the current or in any future year.

4. This report outlines the assessment of the Council's status as a going concern in line with best practice.

Context

5. The provisions in the Accounting Code on the going concern accounting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that local authorities have no ability to cease being a going concern as described by IAS 1 - Presentation of Financial Statements. As local authorities cannot be dissolved without statutory prescription, it would not be appropriate for the Council's financial statements to be prepared on any other than a going concern basis.

6. Although the financial context continues to be challenging and uncertain the Council has a strong track record of meeting its financial obligations and maintaining financial sustainability through delivery within budget. Since 2012 the Council has delivered an outturn within its budget. A Council wide approach to the budget, which is priority driven and over a medium-term planning horizon will ensure that this continues to be the case.

7. The Annual Audit Letter from Mazars includes a commentary on the Council's value for money arrangements, which considers financial sustainability, governance, and economy, efficiency, and effectiveness. The last update report issued in relation to 2021/22, presented to Audit and Standards Committee on 7 February 2023, outlined that Mazars did not identify any significant weaknesses in arrangements. As part of this update report, Mazars confirmed that there are no changes to the requirements for the auditor's value for money commentary on the Council's arrangements for 2022/23.

Current Position - 2022/23

8. Council agreed the revenue budget for 2022/23 on 24 February 2022. This was set at £254.3m including a requirement of £5.8m to be funded from the budget sustainability reserve.

9. The overall 2022/23 outturn position for the Council including non-service budgets and financing results in an overall Council revenue position for 2022/23 of a surplus of £3.4m.

10. The position is testament to the collective approach taken by groups and services to keep cost pressures under review within the financial year and ensuring that action was taken in a timely manner to ensure an outturn within budget.

11. The Corporate Management Team receive regular updates on budget delivery in order to monitor progress and hold lead officers to account.

12. Council originally approved a Capital Programme of £146.7m for the 2022/23 financial year. At the third quarter review the capital programme was set at £80.4m, £60.4m General Fund schemes and £20.0m HRA. The Capital Programme outturn for 2022/23 was £77.3m, £56.7m General Fund and £20.6m HRA £3.1m lower than the third quarter review.

13. The HRA outturn required £6.5m use of reserve compared to the agreed use of £3.0m use of reserves the second quarter on 24 November 2022, this was an increase of £3.5m. The HRA is ring-fenced and does not form part of the General Fund reserve.

14. As part of the Council's budget and policy framework Cabinet receives quarterly reports on performance against the agreed revenue budget and agreed capital programme.

15. The budget outturn positions were reported to Cabinet on 20 June 2023.

16. The Statement of Accounts for 2022/23 have been prepared and the health of the balance sheet has been assessed and the key points (subject to audit) are as follows:

    - The general reserve use of £8.8m which complies with MTFS principles
    - Schools' reserves decreased by £0.7m.
    - Useable revenue reserves have decreased by £7m as part of outturn to £95m as at 31 March 2023.

- The useable reserves balance increases to £146m when the HRA (£20m) and capital receipts/grants (£31m) balances are added to the revenue reserves.
- Long term assets have increased from £1,683m to £1,725m due to an increase in the value of property, plant and equipment.
- Current assets have decreased from £245m to £158m mainly due to a reduction in current investments.
- Current liabilities have decreased from £204m to £143m mainly due to a decrease in current creditors, and a reduction in cash and cash equivalents.
- Long Term Liabilities have decreased from £1,213m to £717m mainly as a result of a reduced pension liability.
- Net Assets have increased from £511m to £1,023m.

17. A breakdown of the £95m revenue reserves as at 31 March 2023 (subject to audit) is shown in the following table:

	Balance Mar-23 £000s
General Reserve	(11,873)
LMS Budget Share Reserve	(8,280)
General Fund	**(20,153)**
Earmarked reserves:	
Financial Risk and Resilience	(19,163)
Thrive	(7,513)
Budget Sustainability	(36,700)
Developers' contributions	(2,180)
Unapplied revenue grants	(1,395)
Public health	(3,819)
Dedicated Schools Grant (DSG)	(3,964)
Total earmarked reserves:	**(74,734)**
Total reserves	**(94,887)**

18. The outcome of the outturn on the Council element of the general fund reserve was that the remaining balance is £11.9 million. This equates to 4% of 2023/24 net revenue budget (£281.885 million) and assessed as appropriate in the current climate.

19. The draft statement of accounts includes the Annual Governance Statement which was approved by the Audit and Standards Committee on 20 June 2023 following the Committees review of the evidence of assurance provided on the Council's internal controls, risk management and governance arrangements. The statement concluded that the Governance arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Future Position- 2023/24 Approach to Budget

20. Council agreed the revenue budget for 2023/24 on 23 February 2023. This was set at £289.9m after £13m savings. The position includes £10.0m of Council financing from the Budget Sustainability Reserve to allow time for a planned schedule of efficiencies.

21. Council also agreed a £112.0m capital programme and an HRA balanced budget of £86.8m adding £1.5m to reserve in 2023/24.

22. Both the revenue and capital budgets first Quarter Review were reported to Cabinet on 18 July 2023. At that time the projected revenue outturn, following management interventions, was an overall projected overspend of £1.1m and it was proposed that the capital programme be increased by £1.4m to the projected outturn of £113.5m.

23. Second quarter reviews will be reported to Cabinet on 21 November 2023.

24. Strong financial management remains critical moving into 2023/24, as many of the drivers for cost pressures and lost income continue from 2022/23, these have arisen from:
    - Unachieved agreed budget savings in 2020/21, 2021/22 and 2022/23 that have become an added pressure into 2023/24.
    - Continued increase in demand in Adult and Children's Social Care services.
    - Unfunded pay pressures, such as public sector pay award and the Governments National Living Wage aspirations, which also impacts on negotiations with care providers and commissioning costs.
    - The performance of traded and investment income linked to the wider economy in particular in leisure services.
    - Increased cost pressures in relation to utilities and inflation on supplies.
    - Addressing the health, employment and poverty inequalities that the pandemic has added to.
    - Increased demand for welfare, mental health services and debt advice.
    - Increased demand for business advice and support.

25. Cash has been managed to ensure a positive cash flow and this continues to be the position projected forward.

26. The revenue and capital budgets will be monitored monthly by Senior Officers, bi-monthly by Corporate Management Team and SMG Projects and quarterly by Cabinet with any changes to budgets agreed by Council.

Future Position- Medium Term Financial Strategy (MTFS) and Budget Approach

27. The Council's Medium Term Financial Strategy 2024/25 to 2028/29, and the Budget Approach were reported to Cabinet on 24 October 2023.

28. The MTFS has been fundamentally refreshed and sets the framework for the Budget Approach. Notwithstanding the challenging economic and financial context, the MTFS and Budget Approach is built on a solid foundation of:

    - The Council has a strong track record of delivering within Revenue Outturn budget. The 2022/23 Revenue Outturn was positive but there were a number of one-off issues that masked overspending in some areas. The positive outturn remains a significant achievement and enables the Council's sound financial position to be maintained;

- The 2023/224 Finance Settlement was considered to be more positive than anticipated, although the impact of inflation has eroded the spending power;
- Despite the funding challenge, the Council agreed budget cuts of £13m for 2023/24 to achieve a legally balanced budget, recognising active management of the funding position and that use of reserves cannot be the solution to the funding gap;
- The active management of reserves has enabled some flexibility on the period over which reserves can be used, from 3 to 5 years;
- The funding assumptions in the MTFS are considered to be more realistic estimates. Nonetheless, the caveat of uncertainty remains;
- The 2023/24 base budget includes capacity to deliver on the transformation challenge, further strengthened by an additional £2m in 2024/25; and
- An approach to replenish reserves from year 3 of the MTFS.

29. It remains critical that the Council has a robust approach to budget setting and a plan for uncertainty including delivery of demand management interventions in social care, alongside a pipeline of additional savings to achieve financial sustainability without reliance on reserves by the final year of the MTFS.

30. The Budget Approach is set within the context of the 5-year rolling MTFS and outlines a high-level framework over the period of the MTFS, alongside a broad timeline to achieve the immediacy of a legally balanced budget for 2024/25 and a balanced position without reliance on reserves by 2028/29.

31. The Council acknowledges that it will be difficult to continue to deliver substantial savings without significant changes in the way we deliver services and therefore reserves are being used to smooth and assist transition and mitigate future risk. Reserve levels and use will be kept under review and reported to Cabinet.

32. The Council aims to ensure that resources are used to maximum effect which allows the Council to continue to deliver new and better ways of working and invest to improve the efficiency of services provided. One of the biggest pressures facing the Council is the demand for services therefore services will focus on ways to reduce demand pressures through different processes and interventions.

33. The Council has an ambitious capital strategy and its key investment aspirations are based on the principle of invest to save, with a rate of return over the life of the assets, generating income streams which contribute to Council services, the local economy and further investment.

34. The HRA 30-year Business Plan specifically assesses the future sustainability of the HRA and is reviewed at least twice a year as part of budget setting and final accounts. The economic uncertainties and market volatility caused by the pandemic are being assessed by management monthly and it is estimated that the HRA reserve of £23.1m will not fall below its minimum recommended balance of £3m over the period.

35. Future risks for the Council include continued uncertainty over government funding, increasing demand for adult and children's social care, the uncertainty and

continuing delays to funding reform, the impact of high interest rates and inflation, and the impact of the cost of living crisis. These risks will continue to be monitored by Senior Officers and Cabinet.

36. A balanced budget will be agreed by Cabinet and Council in February 2024 and any savings identified in the approach throughout the year will be subject to further formal consultation.

Conclusion

37. Based on the assessment undertaken, the Council's Chief Finance Officer (section 151 officer) view is that the Council is aware of the financial challenges it faces and is prepared to deliver its services in the future taking account of the future known risks and therefore the Council is a going concern and the Statement of Accounts should be prepared on that basis.

Recommendation

38. It is recommended that the Committee agrees that the Council is considered to be a going concern based on the assessment in this report and that the accounts are prepared and approved on the basis of continued provision of services.

CONTACT: Darren Collins extension: 3582

Gateshead Council

Audit and Standards Committee
30 October 2023

Title of Report: **Audit Completion Report Year Ended 31 March 2023 and Gateshead Council Statement of Accounts 2022/23**

Report of: **Darren Collins, Strategic Director, Resources and Digital**

Purpose of the Report

1 This report updates the Audit and Standards Committee on the outcome and findings of the audit of Gateshead's Statement of Accounts 2022/23 by the Council's external auditor Mazars.

Background

2 The Accounts and Audit Regulations 2015 require that the Council's Statement of Accounts should be approved by a committee. In Gateshead's governance framework, this is the Accounts Committee. However, best practice guidance outlines that the Audit and Standards Committee should also review the financial statements and external auditor's opinion. Review by this Committee is an additional step in the process to comply with best practice.

3 The annual audit of the Council's Statement of Accounts and use of resources has now been substantially completed for 2022/23 and the Council's external auditor, Mazars has issued its Audit Completion 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;

- 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 The external auditor's report is attached at Appendix 1 and the Council's Statement of Accounts (subject to outstanding work) is attached at Appendix 2.

6 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) to give assurance on the Tyne and Wear Pension Fund (TWPF) disclosures in the Council's Statement of Accounts.

7 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.

Audit Completion Report

8 Mazars' Audit Completion Report is included as Appendix 1 to this report. 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 pensions.
- 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.
- 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 2022/23 has been published. Audit work will commence once the return is completed.
- 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.

9 The Statement of Accounts is materially consistent with the 2022/23 revenue and capital outturn reports considered by Cabinet on 20 June 2023. Along with minor adjustments and presentational changes, the significant findings and misstatements to the Statement submitted for audit on 31 May 2023 have been identified through the audit process. These are outlined in Mazars Audit Completion Report:

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

10 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.

Recommendation

11 The Committee is requested to note the contents of the external auditor's Audit Completion Report and any update reports and review and comment on the Statement of Accounts 2022/23, prior to submission to the Accounts Committee.

Contact name: Darren Collins Ext - 3582

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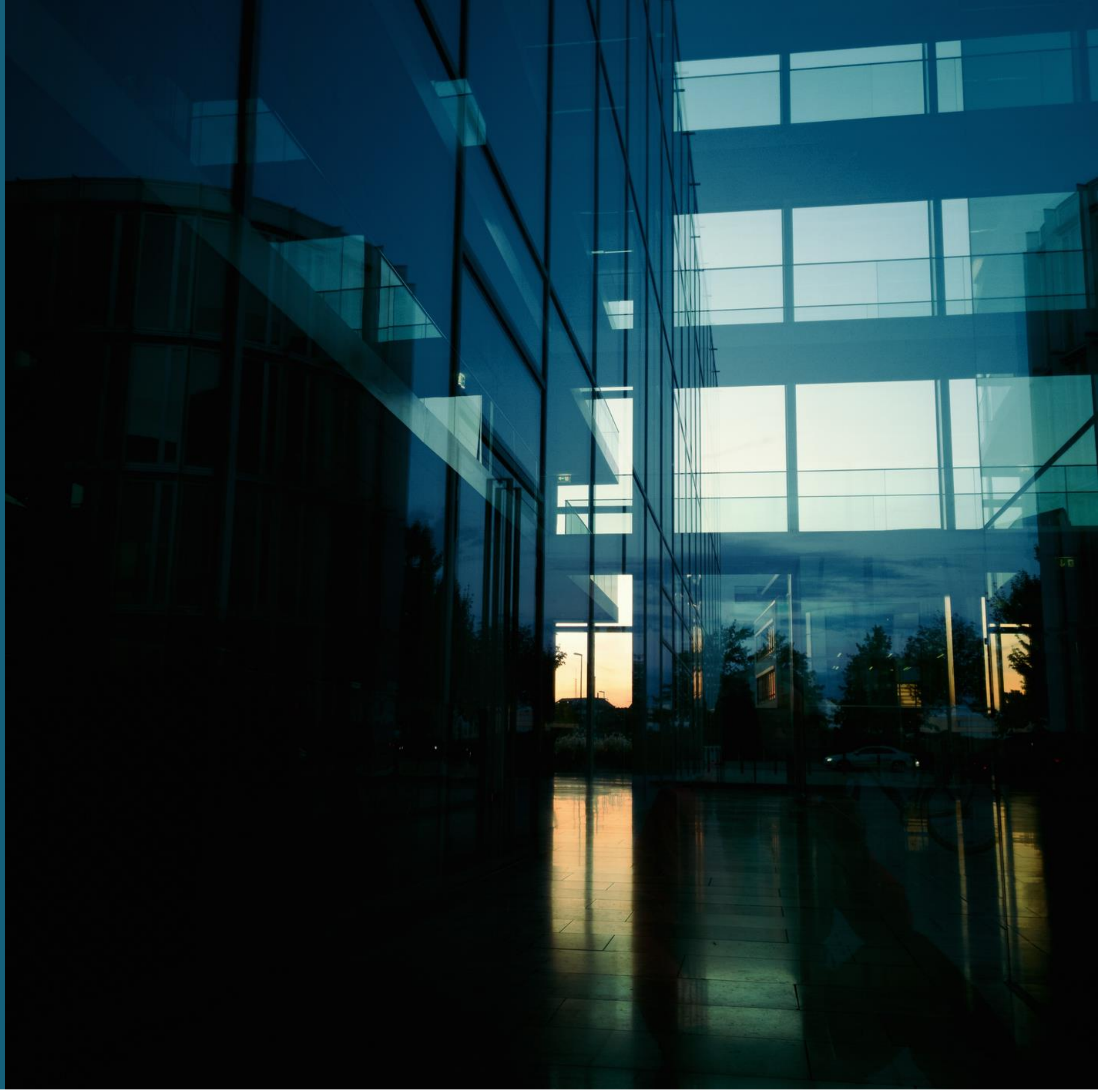
Audit Completion Report

Gateshead Metropolitan Borough Council – year ended 31 March 2023

October 2023



mazars

Contents

mazars

Audit and Standards Committee and Accounts Committee Members
Gateshead Metropolitan Borough Council
Gateshead Council
Civic Centre
Regent Street
Gateshead
NE8 1HH

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

23 October 2023

Dear Committee Members

Audit Completion Report – year ended 31 March 2023

We are pleased to present our Audit Completion Report for the year ended 31 March 2023. 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 20 July 2023. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

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

If you would like to discuss any matters in more detail, then please do not hesitate to contact me on 07881 283 527.

Yours faithfully

Signed: James Collins (Oct 23, 2023 10:06 GMT+1)

James Collins
Director
Mazars LLP

Mazars LLP – Bank Chambers, 26 Mosley Street, Newcastle upon Tyne, NE1 1DF
Tel: 0191 383 6300 – www.mazars.co.uk

01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2022/23 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;
- valuation of the net defined pension benefit liability;
- valuation of property, plant and equipment; and
- accounting for PFI arrangements (enhanced risk).

Misstatements and internal control recommendations

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements; unadjusted misstatements would result in an increase of £2.3m to gross expenditure. 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 2023. At the time of preparing this report, the matters remaining outstanding are outlined in section 2. We will provide an update to you in relation to the significant matters outstanding through issuance of a follow-up letter.

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

Value for Money
Whist we are yet to complete our work in this area, we anticipate having no significant weaknesses in arrangements to report in relation to the arrangements that 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. 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.

02

Section 02:

Status of the audit

2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
Pensions	R	We have not yet received and considered the assurance from the Pension Fund auditor.
2021/22 audit and 2022/23 opening balances	G	We need to carry out work in respect of 2022/23 opening balances when they have been rolled forward in the Council's ledger. The Council cannot do this until the 2021/22 audit has been completed; we anticipate completion of the 2021/22 audit in late October 2023.
Financial Statements – closing procedures	G	Review and closure processes, including checking the amended version of the financial statements, obtaining a final journals report from the Council and consideration of any post balance sheet events. Review procedures also remain on-going, namely: – Engagement Quality Review: required due to the size of the Council; and – review of the final revised accounts by our central technical team.

R	Likely to result in material adjustment or significant change to disclosures within the financial statements.
A	Potential to result in material adjustment or significant change to disclosures within the financial statements.
G	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 July 2023. 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, based on the draft year end financial statements, was set at £14.472m using a benchmark of 2% of gross operating expenditure. No changes to the materiality level set at the planning stage have been made.

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.
Shared Waste Private Finance Initiative (PFI) facility	Hilco Appraisal Ltd	*We have engaged our own internal valuation expert to review the assumption that the movement in the value of the shared waste facility is not material between years.*
District Energy Centre (DEC)	*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

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 15 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year; and
- any further significant matters discussed with management.

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Significant risks

Management override of controls	**Description of the risk** In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	How we addressed this risk We addressed this risk through performing audit work over: • accounting estimates impacting amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Audit conclusion Subject to satisfactory completion of outstanding work, our work has provided the assurance we sought in each of these areas and has not highlighted any material issues to bring to your attention.

4. Significant findings

Net defined benefit liability valuation	
	Description of the risk The financial statements contain material pension entries in respect of the retirement benefits. The calculation of the net pensions liability of £8.8m, made up of the gross pension assets (£1,517.3m) and gross pension liabilities (£1,526.1m) 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 for making estimates in relation to pension entries within the financial statements; • 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 procedures in place at the Pension Fund are operating effectively; • reviewed summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets and evaluating whether the outcome of their work would affect our consideration of the Council's share of Pension Fund assets; • reviewed the actuarial allocation of Pension Fund assets to the Council by the Actuary, including comparing the Council's share of the assets to other corroborative information; and • agreed data in the Actuary's valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council's financial statements.
	Audit conclusion The opening net pensions liability as of 1 April 2022 was amended in the 2021/22 accounts because of the revised pensions report the Council obtained earlier this year, due to the triennial revaluation exercise. This resulted in a decrease of £38.7m to the Council's net pensions liability from £535.5m to £496.8m. As of 31 March 2023, the Council's net pensions liability has further decreased from £496.8m to £8.8m; a similar significant decrease has been noted for the other Local Authority 7 (LA7) in the North East, with two Councils reporting a small net pensions asset. This significant decrease arises from gross pension assets and liabilities almost being the same due to movements in markets for assets and changes in actuarial assumptions impacting on liabilities. As of the time of issuing this report, we have not yet received and considered the Pension Fund auditor's assurance. The letter is expected at the end of October, and we will provide an update on outstanding matters to the Committees via our formal follow-up letter.

4. Significant findings

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 valuations of property, plant and equipment due to the significant judgements and number of variables involved. The net book value of PPE as at 31 March is £1.6 billion (prior year £1.6 billion).

How we addressed this risk

We have:

- 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;
- substantively tested a sample of revaluations, including critically reviewing the Council's own consideration of assets not revalued in the year and why they are not materially misstated; and
- liaised with the Council's external valuation expert, Jones Lang La Salle, to understand their approach.

Audit conclusion

Valuation of the PFI shared energy from waste facility

The Council is the lead Authority for a PFI shared energy from waste facility, between three local Councils including Sunderland City Council and South Tyneside Council.

For 2022/23, we noted the Council had not revalued the asset in year. Per discussions with Council officers, they liaised with their Valuer for this asset, Hilco, whose assessment was that there has been no significant movements in asset values between the previous valuation date of 31 March 2022 and the year-end date of 31 March 2023 and, therefore, no revaluation took place for this year's financial statements. To assess the accuracy and reasonableness of the assumption made by the Council's valuer, we engaged our own internal valuation expert to consider this assessment. No issues were identified from our internal valuer's review, and as such we concluded that the judgement not to revalue the asset was reasonable.

Other valuations

No significant issues have been identified from our testing. We challenged the Valuer in respect of some of the blended indices used in depreciated replacement valuations; two minor errors were identified; however, the impact was clearly trivial. We would recommend the Valuer retains evidence for blended indices used in valuations for next year.

Overall

Our work has provided the assurance we sought in each of these areas and has not highlighted any material issues to bring to your attention.

4. Significant findings

Key areas of management judgement

Enhanced risk: accounting for PFI arrangements	**Description of the management judgement** The Council has two PFI arrangements, covering: • schools; and • a shared waste facility. The method of accounting for PFI assets/liabilities is complex, therefore, this increases the risk of misstatement
	How our audit addressed this area of management judgement 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 Our work has provided the assurance we sought in each of these areas and has not highlighted any material issues to bring to your attention.

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 CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets, published in November 2022, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 31 May 2023 and were of a good quality.

Significant matters discussed with management

During our audit we discussed the the following significant matters with management.

Pensions

We discussed with management the revision to the 2021/22 accounts made in May of this year, as a result of the triennial valuation of the Pension Fund. We critically reviewed the 2022/23 net pensions liability disclosed by the Council as at 31/3/23, which has significantly decreased compared to the prior year; see further commentary under the significant risks section.

Valuation of the PFI shared energy from waste facility

The Council is the lead Authority for a PFI shared energy from waste facility, between three local Councils including Sunderland City Council and South Tyneside Council.

For 2022/23, we noted the Council had not revalued the asset in year on the basis of there being no material movement since the last valuation, with the Council's assessment being informed from discussions with a specialist Valuer, Hilco. To assess the accuracy and reasonableness of this judgement, we engaged our own internal valuation expert to consider this assessment and we did not identify any issues with the Council's judgement.

Valuation of Newcastle Airport shares

We noted from our 2022/23 audit work there has been no movement in the £11.7m valuation of the Airport shares accounted for in the Council's financial statements at 31 March 2023.

Officers critically considered the movement in share prices for other similar airports which had not indicated a material movement since the previous valuation, therefore, the Council's judgement was that the valuation remained appropriate. Our review of the valuation and evidence provided by Council officers supported the assumption that there has not been a material movement.

Minimum Revenue Provision (MRP)

The Council is required to make a 'minimum revenue provision' for repayment of capital expenditure, based on overarching guidance requiring a prudent amount to be set-aside. We noted the Council's MRP in 2022/23 was £16.3m, compared to £22.3m the prior year; this reduction being due to an additional provision of £3m being made in 2021/22, which is being used to reduce the MRP charged in 2022/23 and 2023/24. We confirmed the Council has appropriately reported this in its annual MRP policy statement from 2022/23.

Recoverability of debtors

We have critically reviewed the Council's allowance for impaired debtors. We have reported a brought forward unadjusted error in respect of a debtor which the Council anticipates writing off in 2023/24 as well as other non-material legacy balances in respect of Public Sector Partnership and The Gateshead Housing Company.

Reinforced Autoclaved Aerated Concrete (RAAC)

We made enquiries of officers in respect of RAAC being present in any Council-owned buildings and obtained assurance that government department procedures were being followed and there was no indication of any material issues impacting on the Council's assets.

Agresso password length

In line with industry best practice, we recommended the Council change its policy for Agresso passwords from 7 digits to a minimum of 8 digits; the Council has already actioned this, therefore, we have not raised it as a formal recommendation. We note mitigating controls in place already at the Council, in particular multi-factor authentication.

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 2022/23 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

As part of our audit of the financial statements, we obtained an understanding of internal controls sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to the Council any significant deficiencies identified during the course of our work.

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 control or to identify any significant deficiencies in their design or operation.

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

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

We have not identified any internal control recommendations in respect of 2022/23. We have set out our follow-up of prior year internal control recommendations on the following pages, with a summary below:

Open

- **Review of working papers and quality assurance arrangements** (medium priority): remains open in respect of ensuring an analytical review is evidenced.
- **Review of arrangements in place for estimating provisions** (medium); remains open in respect of the business rates appeals provision not being split between current and non-current provisions.
- **Debtor balances** (medium); remains open in respect of carried forward issue in respect of debtor balances which require writing off.

Closed

- **Property, plant and equipment valuations** (high – closed)
- **Infrastructure** (medium – closed)
- **Annual Governance Statement** (medium – closed)
- **Amendment to returns submitted by senior officers for purposes of related party disclosures** (low – closed)

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.	0
3 (low)	In our view, internal controls should be strengthened in these additional areas when practicable.	0

5. Internal control recommendations

Follow up on previous internal control points

Description of deficiency – **quality assurance arrangements for the accounts (medium priority)**

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.

2022/23 update

We noted as part of our 2022/23 year end audit that Council officers provided the core audit working papers upfront and then any additional working papers required by the audit team over and above the core information was shared when requested. As such, the number of working papers shared was a lot more manageable and information could easily be identified in the working papers provided. No issues with blank working papers were identified, nor were there any issues identified with working papers not being updated to reflect findings from prior years.

With regard to analytical review procedures, we have not seen evidence that this was carried out by the Council as part of their own quality assurance procedures and as such this part of the recommendation remains open.

5. Internal control recommendations

Follow up on previous internal control points (continued)

Description of deficiency – debtor balances from the 2020/21 audit (medium priority)

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.
- **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.

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 above 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.

2022/23 update

The outstanding disputed debtor with a partner referenced above remains outstanding as at 31 March 2023, therefore, remains a carried forward issue and is reported in our summary of unadjusted misstatements. From discussions with officers, progress to resolve the issue has remained on-going during the year and the issue is expected to be resolved during the 2023/24 financial year.

5. Internal control recommendations

Follow up on previous internal control points (continued)

Description of deficiency – provisions (medium priority)

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. .

2022/23 update

The insurance provision has been updated and we identified no issues arising from our 2022/23 audit work.

The business rates appeals provision has not been split between current and non-current, which remains a carried forward issue arising.

5. Internal control recommendations

Follow up on previous internal control points (continued)

Description of deficiency - **Property, Plant and Equipment valuations – from the 2020/21 audit (high priority)**

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.

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.

5. Internal control recommendations

Follow up on previous internal control points (continued)

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

Potential effects

Risk of material misstatement.

Recommendation

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

Follow-up in 2021/22

The Council appointed new external Valuers for 2021/22.

Sample testing 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.

2022/23 update

Subject to the conclusion of outstanding testing, there were no significant issues arising from audit work carried out. We challenged the Valuer in respect of some of the blended indices used in depreciated replacement valuations; two minor errors were identified, however, the impact was clearly trivial. We would recommend the Valuer retains evidence for blended indices used in valuations for next year.

Overall, this internal control recommendation is assessed as completed and no further follow-up is required.

5. Internal control recommendations

Follow up on previous internal control points (continued)

Description of deficiency – **Infrastructure (medium)**

Issue arising from infrastructure 2021/22 balances work carried out in March 2023, relating to the temporary solution put in place by CIPFA.

The Council did not amended its categories of infrastructure for 2021/22, on grounds of materiality. It plans to do this in 2022/23.
We noted the Council plans to revise its fixed asset register for 2022/23, based on the infrastructure useful economic lives calculated as part of this exercise. Our critical review of the categories of infrastructure and useful economic lives identified some non-material discrepancies which the Council should review as part of the 2022/23 exercise.

Potential effects

Misstatement of infrastructure balances.

Recommendation

Action the work the Council has set out it needs to do for 2022/23.

2022/23 update

There is an appropriate split of infrastructure useful economic lives in the 2022/23 Property, Plant and Equipment accounting policy. In terms of the discrepancies identified as part of work done in March 23, these have been addressed as part of the 2022/23 a/cs.

Recommendation actioned, therefore, considered 'closed'

5. Internal control recommendations

Follow up on previous internal control points (continued)

Description of deficiency - **Annual Governance Statement (medium)**

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).

Follow-up in 2021/22

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

2022/23 update

The Council has included a section regarding the governance of the Council’s companies per paragraph 24 of the Annual Governance Statement. Satisfied that the recommendation has been implemented for 2022/23. **No further follow-up is required.**

5. Internal control recommendations

Follow up on previous internal control points (continued)

Description of deficiency - **related party returns from senior officers** **(low priority)**

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.

2022/23 update

Our year-end testing confirmed that related party transaction returns have been amended by the council, so that they now require the recipient to disclose both any related party transactions with the Council during the period and any directorships held. **Therefore, this internal control recommendation is assessed as completed and no further follow-up is required.**

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 £0.442 million for the Council.

- 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.
- The second table outlines the misstatements identified during the prior year audit which were not adjusted for and are carried forward misstatements.

There are no misstatements impacting on the primary statements that have been adjusted by management during the course of the audit. The final page of this section sets out disclosures which have been amended.

The table below summarises all errors.

Summary of unadjusted and adjusted misstatements

		Assets (£'000)	Liabilities (£'000)	Reserves (£'000)	Income Statement (£'000)
	Unadjusted misstatements identified during the 2022/23 audit	-615	-3	0	618
B	Unadjusted misstatements identified during the 2021/22 audit which remain carried forward	-3,539	1,824	0	1,715
	Sub-total unadjusted misstatements: current year and prior year	**-4,154**	**1,821**	**0**	**2,333**
C	Adjusted misstatements	0	0	0	0

6. Summary of misstatements

(A) Unadjusted misstatements – current year

		Assets (£'000)	Liabilities (£'000)	Reserves (£'000)	Income Statement (£'000)
1	Dr Gross Expenditure				2,193
	Cr Creditors		-2,193		
	Being the extrapolated error arising from our expenditure cut-off testing; an item was selected for testing from April 2023 which related to March 2023. Testing confirmed that the expenditure had been incorrectly included in 2023/24 when it should have been included in 2022/23 (creditor accrual). Actual error £0.051m, extrapolated error £2.193m.				
2	Dr: Creditors		2,469		
	Cr: Gross Expenditure				-2,469
	Being the extrapolated error arising from our expenditure and creditors testing; error in relation to two sampled items mainly due to the invoice amount being lower than the accrued amount. Actual error £0.118m, extrapolated error £2.469m.				
3	Dr: Debtors (NHS bodies)	279			
	Cr: Creditors (NHS bodies)		-279		
	Being the extrapolated error arising from testing of debtor balances; error identified in respect of one balance which had been misclassified as a debtor instead of a creditor. Actual error £0.012m, extrapolated error £0.279m.				
4	Dr: Gross Income				894
	Cr: Current Debtors	-36			
	Cr: Non-current Debtors	-858			
	Being legacy PSP and TGHC debtor balances that need writing out. PSP = Public Sector Partnership; the Council's joint venture that was terminated in 2021/22 (balance of £0.797m) TGHC = The Gateshead Housing Company – housing company which came back in-house from 1 April 2022 (balance of £0.097m – current and non-current).				
	Total unadjusted misstatements – current year	**-615**	**-3**	**0**	**618**

6. Summary of misstatements

(B) Unadjusted misstatements – prior year carried forward

		Assets (£'000)	Liabilities (£'000)	Reserves (£'000)	Income Statement (£'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: Gross Income				5,370
	Cr: Gross Expenditure				-5,370
	Being the misclassification of Highways gross income and expenditure in 2021/22 (net nil impact on Highways per Note 16 trading accounts). Not a b/f error, but relates to 2021/22 only, therefore, included in this section.				
	Total unadjusted misstatements – prior year carried forward	**-3,539**	**1,824**	**0**	**1,715**

6. Summary of misstatements

Audit work identified a number of adjustments to disclosures including adjustments for minor presentational, spelling, grammatical and consistency errors. The most significant are summarised below, split into adjusted and unadjusted.

Adjusted disclosures

- **Narrative report:** amendment to several financial disclosures to ensure consistency with the accounts.
- **Restatement of CIES:** the Council restated, as required, the Comprehensive Income and Expenditure Statement (CIES) for the split of one portfolio into two from 1 April 2022. The Council was required to include a disclosure note setting out the impact of this restatement, which has now been done in the revised accounts (Note 31), as well as adding 'restated' to the Expenditure and Funding Analysis disclosure.
- **Restatement of Balance Sheet / Movement in Reserves Statement**: the Council has removed the 'restated' references on these statements, as they were not required.
- **Note 2 Critical judgements:** amendments to clarify judgements.
- **Note 5 Assumptions:** minor amendments to disclosures.
- **Note 10 Grant Income:** amendment of £0.687m between two line headings in the disclosure.
- **Note 13 External Audit fees: n**arrative was updated to clarify external audit costs.
- **Note 14 Termination Benefits /Exit Packages:** one exit package was shown in its own banding; per the Code 3.4.4.1 (6), bands should be combined where necessary to ensure that individual exit packages cannot be identified, therefore, the note was amended.
- **Note 15 Related Party Transactions:** amendment of £0.480m to the debtors table disclosed at the end of this disclosure. Addition of narrative in respect of the Trinity Square joint arrangement. Minor amendments to quantification of the Council's subsidiaries based on their latest draft accounts.
- **Note 25 Pensions:** update of narrative to reflect the significantly reduced net pensions liability as at 31 March 2023.
- **Note 26 Financial Instruments.** Amendments to the narrative to clarify that some financial instrument balances are not set out in this note, where already disclosed elsewhere in the accounts. Amendment to the narrative in respect of the fair value of financial instruments to reflect the fact fair values were lower as at 31 March 2023 than carrying values.
  Amendment also to the disclosure table showing gains and losses.
- **Collection Fund Statement and notes**: amendment made to the "amount attributable" section (very bottom section of the note) as it was different to the "(surplus)/deficit carried forward" balance (further above in the statement) by £0.476m.
- **Collection Fund Note 2:** amendment to the 'multiplier' shown as it was not the correct standard multiplier.

6. Summary of misstatements

Unadjusted disclosures

- **Note 24 provisions**: the business rates appeals provision of £3.990m as at 31 March 2023 (prior year £2.472m) has not been split between current and non-current provisions as required; this would impact on the face of the balance sheet.

07

Section 07:

Value for Money

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 2023.

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.

Our draft audit report at Appendix B outlines that we have not yet completed our work in relation to the Council's arrangements. As noted earlier, 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.

mazars

Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

Appendix A: Draft management representation letter

[To be provided on letter headed paper please]

Mr James Collins
Director
Mazars LLP
Date:

Gateshead Metropolitan Borough Council - audit for year ended 31 March 2023

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 2023 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 2022/23 (the Code) as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets ("the Code Update"), published in November 2022 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.

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.

Appendix A: Draft management representation letter

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.

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.

Appendix A: Draft management representation letter

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 2022/23 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. I confirm I have disclosed to you the extent of RAAC (Reinforced Autoclaved Aerated Concrete) in Council-owned buildings and to date, there is no indication of any significant issues. I confirm also I have assessed the impact on the Council of the global banking challenges, in particular on whether this impacts on the Council's ability to continue as a going concern and on post balance sheet disclosures.

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

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of Gateshead Metropolitan Borough Council (“the Council”) for the year ended 31 March 2023, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement, the Housing Revenue Account Income and Expenditure Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (“the Code Update”), published in November 2022.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2023 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Code Update.

Basis for opinion

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

Conclusions relating to going concern

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

Based on the work we have performed, and taking into account the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Code Update, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Other information

The Strategic Director, Resources and Digital is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Appendix B: Draft audit report

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

We have nothing to report in this regard.

Responsibilities of the Strategic Director, Resources and Digital for the financial statements

As explained more fully in the Statement of the Strategic Director, Resources and Digital Responsibilities, the Strategic Director, Resources and Digital is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Code Update, and for being satisfied that they give a true and fair view. The Strategic Director, Resources and Digital is also responsible for such internal control as the Strategic Director, Resources and Digital determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Strategic Director, Resources and Digital is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, as amended by the Code Update and prepare the financial statements on a going concern basis on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Strategic Director, Resources and Digital is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor’s responsibilities for the audit of the financial statements

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

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, the Accounts and Audit Regulations 2015, and the Local Government and Housing Act 1989 and we considered the extent to which non-compliance might have a material effect on the financial statements.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

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

Appendix B: Draft audit report

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

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

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

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

We are also required to conclude on whether the Strategic Director, Resources and Digital use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in February 2023.

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

Matter on which we are required to report by exception

We are required to report to you if, in our opinion, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We have not completed our work on the Council's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in January 2023, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2023 .

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

Responsibilities of the Council

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

Appendix B: Draft audit report

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

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

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023.

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

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

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

We have nothing to report in these respects.

Use of the audit report

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

(continued overleaf)

Appendix B: Draft audit report

Delay in certification of completion of the audit

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

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

James Collins
Key Audit Partner
For and on behalf of Mazars LLP

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

Date:

Appendix C: Independence

As part of our on-going 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	We did experience delays in obtaining two external confirmations; however, we have had the full cooperation of management.
Related parties	We did not identify any significant matters relating to the audit of related parties. 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 Council, 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.

James Collins, Director

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

STATEMENT OF ACCOUNTS 2022/23

Subject to audit

Contents Page

Leader's Foreword

by Councillor Martin Gannon
Leader of the Council

I am pleased to introduce the Council's Annual Statement of Accounts for 2022/23 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. We continue the journey to provide strong and sustainable services to the communities of Gateshead, for both here and now, and into the future.

Challenge

In last year's statement I referenced the unprecedented challenges we face on the back of Brexit, the pandemic, severe storms, spiralling energy costs and the challenge of rising costs of living, together with the horrific and unnecessary conflict in the Ukraine. Each has had an impact on our day-to-day operations and has a bearing on how we deliver a balanced budget.

Moving forward

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

- We are 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 investments in, and work on, ground-breaking projects to make Gateshead more resilient and financially sustainable.
- This is a key time for **investment in Gateshead** and we welcomed the Government announcements of £20m from the Levelling Up Fund, and £11.6m from the UK Shared Prosperity Fund. This funding will support us in delivering projects that will secure jobs, help attract new businesses to the Borough and be a catalyst for future regeneration.
- As a region we have signed the historic minded-to **devolution deal** which will bring £4.2bn of investment to the North East. Subject to consultation and formal agreement, the deal could see the North East Mayoral Combined Authority formed in May 2024. With this comes devolved powers from Westminster to the North East, allowing decisions to be made locally where it can have a direct impact.
- We have confirmed our **2023/24 budget** and, whilst recognising that we would like to have the resources to give more support to our residents particularly at such a challenging time, we have agreed what we firmly believe is our best option and which will resource priority areas. We have listened to feedback from residents to ensure we invest further in environmental services. The views presented to us during consultation are crucial to helping us change and improve our services for the future.
- Despite the challenges we continue to face we must not lose sight of the role we can play in helping to tackle global problems. **Climate change** affects us all but it is also something each one of us can help to address. We continue to invest and focus on this important area as we look to be carbon neutral by 2030, and we are asking everyone to think about the small changes they can make in their daily lives to help the environment. The collective impact of us all re-thinking how we live could be significant. We will

continue to work hard with residents, businesses, community groups and all of our partners, whilst also fighting for what we believe will give the best opportunities for everyone in Gateshead to thrive.

- We continue to invest in how residents can access **Council services**, including digital and online improvements. The demand for digital services has continued to grow and more services than ever are now available 24/7 at www.gateshead.gov.uk.

These are just a few examples of areas we have worked on and improved in 2022/23. During 2023/24 we will be engaging on our new Corporate Plan, which will shape our priority areas over the next three years.

Financial support and budget challenges

The Council continues to support those who need us most.

The Council's Medium Term Financial Strategy (MTFS) to 2027/28 reported to Cabinet in October 2022 presents an extremely challenging financial position over the medium-term and identified an estimated funding gap of £55m over the five-year period.

The impacts of the pandemic on demand, costs and income will be long lasting and will likely increase the challenge to the medium- and 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-year period. This will encourage economic and housing growth which will bring about new jobs, new homes and increase the skills of the 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 focussed towards creating a fairer Gateshead.

Thank you

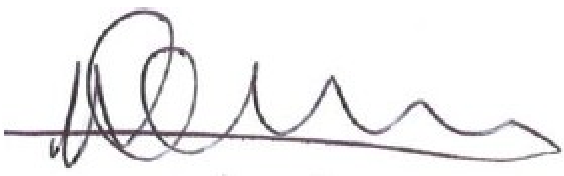
In concluding this foreword, I would like to thank the residents of Gateshead once again, for their support and understanding during these difficult times.

I also want to thank our Council workforce who continue to deliver a wide range of services for Gateshead residents and who are positively supported by the trade unions.

We cannot do this alone and I would also like to thank the voluntary and community sector and our business community for the amazing support they provide to our communities.

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 2022/23, 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 2022/23 (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 has made a judgement that all other related entities are not considered to be material and therefore have not been consolidated into Group Financial Statements.

Making Gateshead a Place Where Everyone Thrives

Gateshead, a borough in the North East of England, is a place with a rich history of endeavour and enterprise, a powerhouse of the industrial revolution and the northern economy. It is a place with a strong spirit and great pride; a place where people care deeply about their neighbours and their local community.

Following consultation with our residents, stakeholders, councillors and officers on "what matters most" we agreed our Thrive agenda and its five pledges. These pledges are:

- 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, has worked through an unprecedented time in recent years with Brexit, the Covid pandemic, the war in Ukraine, the cost-of-living crisis and high inflation. The Council has a unique knowledge, understanding and focus on the wellbeing of our communities. For example, during the winter of 2022 the Council provided "Warm spaces" where members of the community could seek shelter and support from rising energy costs. We continue to 'get the job done' and will continue to work with our partners, including the voluntary and community sector, to deliver on our promise of creating the right conditions for local people to *Thrive*.

Medium Term Financial Planning

The Council's Medium-Term Financial Strategy (MTFS) is based on a financial forecast over a rolling five-year timeframe from 2023/24 to 2027/28. 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 cumulative financial gap of £55m after use of £20m budget sustainability reserves, and Covid reserves of £25m. Within this financial context the budget process has been built upon council wide working to deliver a sustainable long-term financial position.

The Council is facing unprecedented financial and demand pressures following over 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 continuing delays to Government plans for 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, high inflation, and energy cost crisis. This environment 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 a growing number of our most vulnerable residents requiring complex health and social care support. Within the borough there remains 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 people's standard of living can begin to improve.

The Council will keep its medium-term financial position under regular review. Future planning has been assisted by the Council delivering its budget in every year over the last decade despite the huge financial challenged faced.

Further details can be found in the MTFS which was reported to Cabinet in October 2022. The MTFS will be refreshed in July 2023.

Governance

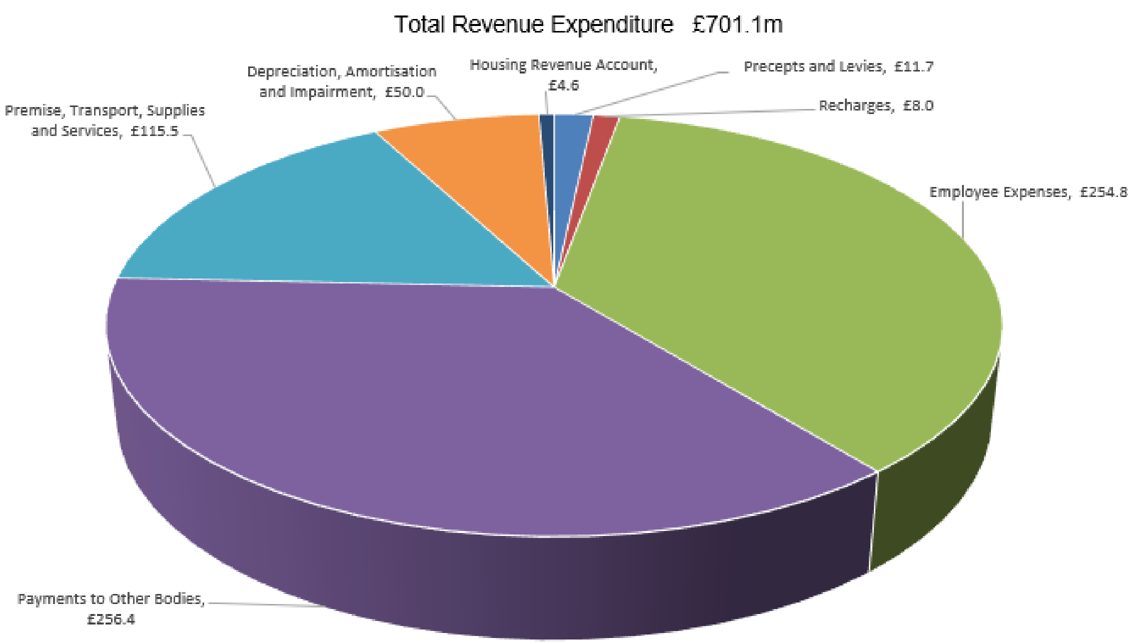
The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework. Further information is available in the Annual Governance Statement (pages 96 to 102) which will be approved by the Audit and Standards Committee on 20 June 2023. 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.

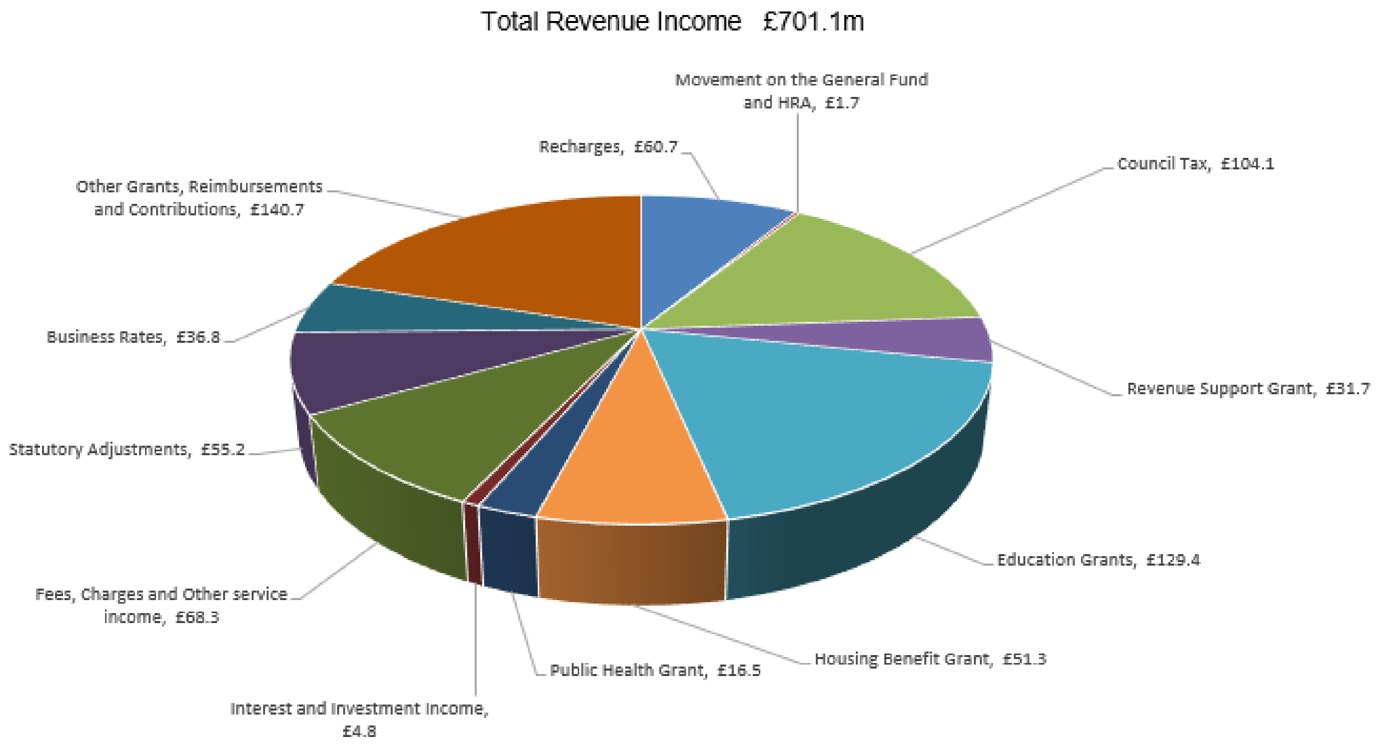
On 25 January 2022 Cabinet approved a revised senior management structure which recommended the separation of Children, Adults and Families into two new groups: Children's Social Care and Lifelong Learning and Integrated Adult's Social Care Services. Each group appointed a new Strategic Director, and the new structure was implemented on 1 April 2022.

In September 2022, Colin Huntington, Strategic Director Housing, Environment and Healthy Communities, was appointed Deputy Chief Executive for a period of two years to promote councillor engagement, to refresh the approach of continual improvement in the delivery of frontline services and resident satisfaction and to challenge the performance and delivery of the Health and Wellbeing Strategy and Council transformation programmes.

Financial Performance

Summarised Revenue Performance





Workforce management and exit packages

The 2022/23 Statement of Accounts recognises a cost of £0.49m in relation to redundancies and other terminations in 2022/23. There were 9 compulsory redundancies (3 in 2021/22), 12 voluntary redundancies (67 in 2021/22) and 5 other terminations (12 in 2021/22). This cost includes redundancy payments to employees and strain on the fund costs payable to the relevant pension fund.

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 (£8.8m) (from £496.77m in 2021/22). The deficit on the Fund reduced by (£488m), largely due to the triennial valuation of the pension fund. The Tyne and Wear Pension Fund is revalued every three years by an independent actuary to set future contribution rates. The most recent valuation, March 2022, assessed the funding value as 110.8%. Note 25 to the financial statements provides further details of the Council's pension disclosures.

The deficit at 31 March 2023 takes into account the national judgements on McCloud / Sargeant and the Guaranteed Minimum Pensions (GMP) (in relation to the first ruling).

Summarised Financial Position

Balance Sheet at 31 March 2022					
Total Assets £1,928m					
Non-Current Assets £1,683m				Current Assets £246m	
Property, Plant & Equip	Heritage	Other	Debtors & Investments	Debtors	Cash, equivalents & Others
£1,605m	£29m	£5m	£44m	£99m	£147m
Less					
Total Liabilities (£1,417m)					
Current Liabilities (£204m)			Non-Current Liabilities (£1,213m)		
Borrowing	Creditors	Cash, Equivalents & Others	Borrowing	Pensions	Other
(£17m)	(£167m)	(£20m)	(£655m)	(£497m)	(£61m)
Equals					
Total Net Assets £512m					
Funded by					
Total Reserves (£512m)					
Usable Reserves (£148m)				Unusable Reserves (£364m)	
General Fund	Earmarked	HRA	Other	Pension	Other
(£17m)	(£85m)	(£26m)	(£20m)	£497m	(£861m)

Balance Sheet at 31 March 2023					
Total Assets £1,883m					
Non-Current Assets £1,725m				Current Assets £158m	
Property, Plant & Equip	Heritage	Other	Debtors & Investments	Debtors	Cash, equivalents & Others
£1,644m	£29m	£5m	£47m	£83m	£75m
Less					
Total Liabilities (£860m)					
Current Liabilities (£143m)			Non-Current Liabilities (£717m)		
Borrowing	Creditors	Cash, Equivalents & Others	Borrowing	Pensions	Other
(£41m)	(£90m)	(£12m)	(£651m)	(£9m)	(£57m)
Equals					
Total Net Assets £1,023m					
Funded by					
Total Reserves (£1,023m)					
Usable Reserves (£146m)				Unusable Reserves (£877m)	
General Fund	Earmarked	HRA	Other	Pension	Other
(£20m)	(£75m)	(£20m)	(£31m)	£9m	(£886m)

Material assets and liabilities: changes in 2022/23

At 31 March 2023, the Council held £1,725.4m of non-current assets, £158.1m of current assets, (£142.6m) of current liabilities and (£717.2m) of non-current liabilities.

Non-current assets have increased by £42.6m, primarily due to increase in the value of the Council's asset portfolio.

Current assets have decreased by £88m, which includes the following significant items:

- A decrease of £50.1m 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 £15.5m; and
- A £21.2m decrease in cash and cash equivalents.

The Council's current liabilities have decreased by £61.2m, which includes the following:

- Cash and cash equivalents (overdrafts) have decreased by £8.1m;
- Short-term borrowing has increased by £23.7m, reflecting the maturity profile of borrowing and use of prudential borrowing for the capital programme;
- A reduction of £69.9m in short-term creditors mainly due to fluctuations in the amounts owed to public bodies;
- A reduction of £3.6m in revenue grants received in advance and a reduction of £3.2m in capital grants received in advance.

Non-current liabilities have decreased by £495.8m, mainly reflecting a reduction in pension liabilities of £488m and a decrease of £4.3m in non-current borrowing.

Council's borrowing position

The Budget and Council Tax Level Report, approved by Council on 24 February 2022, details the 2022/23 borrowing limits for the Council.

The specific borrowing limits set relate to two of the prudential indicators that are required under the prudential framework. The Council is required to set borrowing limits for the following three financial years. The limits for 2022/23 were as follows:

- Authorised limit for external debt of £895m
- Operational boundary for external debt of £880m

As part of the Council's Treasury Management operation, these indicators are monitored on a daily basis, and neither was exceeded during 2022/23. The highest level of external debt incurred by the Council during the year was £684.966m.

Academy Conversions

During the financial year 2022/23, the Department for Education (DfE) entered into funding agreements with four 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.

Revenue Outturn

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 2022/23 on 24 February 2022. This was set at £254.304m.
- The actual net expenditure after applying reserves but before financing was £238.342m. This combined with Council financing being less than budgeted resulted in a positive balance of £3.373m after movements in reserves.
- This surplus was added to the general reserve giving a closing general reserve balance in 2022/23 of £11.873m.
- Changes to reserves are set out in note 6b.

Further details can be found in the Council's Revenue Outturn reported to Cabinet on 21 June 2023. The following shows the Council's spend against Budget for 2022/23[2]:

[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.

	Revised Budget £000s	Outturn Before Reserves £000s	Use of Reserves, Mitigation and grants £000s	Outturn £000s	Budget Variance £000s
Children's Social Care and Lifelong Learning	47,242	51,986	(178)	51,808	(4,566)
Integrated Adults and Social Care Services	81,272	79,013	811	79,824	1,448
Public Health and Wellbeing	20,603	23,270	(1,388)	21,882	(1,279)
Housing, Environment and Healthy Communities	27,157	23,199	1,063	24,262	2,895
Economy, Innovation and Growth	3,973	3,903	343	4,246	(273)
Office of the Chief Executive	922	890		890	32
Corporate Services and Governance	7,056	6,471	108	6,579	477
Resources and Digital	13,936	12,875		12,875	1,061
Other Services and Contingencies	12,906	2,723	7,994	10,717	2,189
Capital Financing Costs	33,116	30,663		30,663	2,453
Traded & Investment Income	(3,710)	(6,816)		(6,816)	3,106
Expenditure passed outside General Fund	(1,855)	(1,521)		(1,521)	(334)
Levies	11,686	11,686		11,686	0
Net spend before financing	**254,304**	**238,342**	**8,753**	**247,095**	**7,209**
Settlement Funding Assessment (SFA)	(56,907)	(56,709)		(56,709)	(198)
Other Grants	(47,235)	(49,938)		(49,938)	2,703
Public Health	(17,225)	(17,225)		(17,225)	0
Council Tax	(103,856)	(103,856)		(103,856)	0
Collection Fund (Council Tax)	159	159		159	0
Earmarked Reserves	(29,240)	0	(22,899)	(22,899)	(6,341)
Financing	**(254,304)**	**(227,569)**	**(22,899)**	**(250,468)**	**(3,836)**
Total Net (under)/over spend				**(3,373)**	

Council General Reserve – opening balance	**(8,500)**	
2022/23 underspend	(3,373)	
Strategic Review Adjustment		
Council General Reserve – closing balance	**(11,873)**	

Capital Outturn

On 24 February the Council set an ambitious five-year capital programme to 2026/27 totalling £491.4m, which included projects to:

- Support climate change, reducing carbon emissions by 1,500 tonnes per annum
- Promote health and wellbeing
- Stimulate housing development, delivering 1,600 new homes.
- Improve highways infrastructure, public transport, and reduce congestion.
- Promote and support business growth within the borough; and
- Ensure children and young people are safe and have the opportunities to thrive.

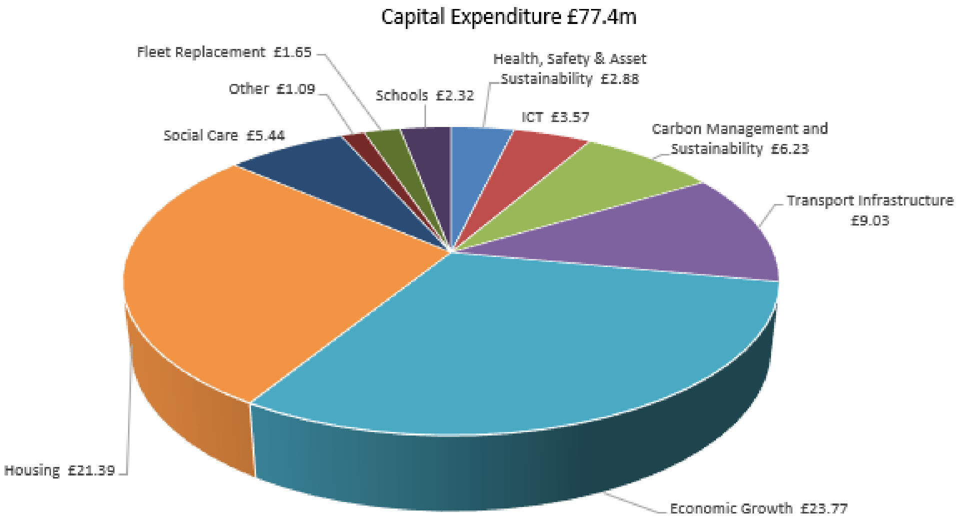
In 2022/23, the Council spent £77.37m on capital schemes (2021/22: £97.2m), with capital investment focused on the delivery of these Council priorities. A number of schemes were supported during the year, with particular emphasis on housing, economic growth, energy efficiency and sustainability projects.

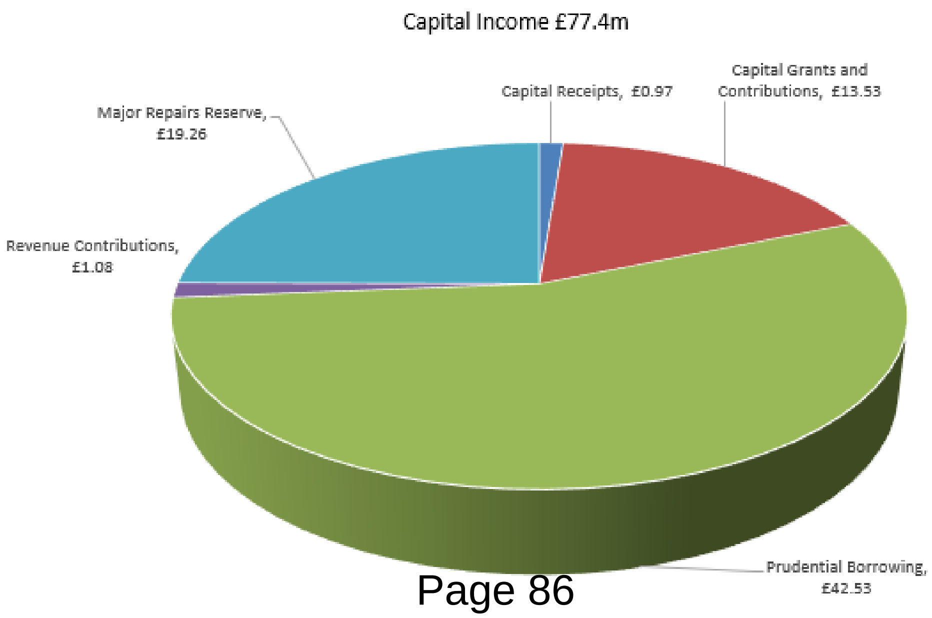
Actual capital expenditure for the year on the Council's non-current assets totalled £71.34m (2021/22: £86.3m).

This expenditure was invested in the purchase and improvement of the Council's assets such as housing, schools and transport infrastructure. In addition, the Council spent a further £6.03m (2021/22: £10.86m) on schemes where no asset of the Council was created. This includes:

- the award of capital loans to the District Energy Company to facilitate the expansion of the Energy Network; and
- the award of disabled facilities grants to individuals.

The following charts indicates the breakdown of capital expenditure across the Council and how the Council funded is Capital Investment:





Non-Financial Performance

The Council has achieved successes in a number of areas and continues to deliver for residents of Gateshead:

Children's Social Care and Lifelong Learning

- Our Brighten the Day programme continues to support families and children during school holidays. In the summer, we provided 24,000 activity places and 20,000 packed lunches. During the February half term, we delivered five specific cooking projects at venues across Gateshead, where a total of 120 children and young people cooked their own two course meal.

Adult Social Care

- 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 being 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.

Supporting our communities

- Our Warm Spaces project provided free hot drinks and a place to charge items, for residents of Gateshead during the winter to assist with the cost-of-living crisis. This project not only provided areas where residents could keep warm but also reduced the feelings of isolation for those more vulnerable members of society. The Warm Spaces project received national interest and was held up as best practice.
- To support our residents, we produced a 12 page Cost of Living booklet, providing contact details for a wide range of support services in the borough, helping all of our communities through the challenges they were facing.

Economy

- Enabling works for The Sage, Conference and Exhibition Centre have commenced on site which is due to be operational in 2025. 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 £100m annual boost to the local economy. It is anticipated the site will attract over 1 million additional visitors each year.
- We were also successful in attracting a £20m grant from Government, via its Levelling Up Fund programme, towards The Sage on Gateshead Quays
- In 2022/23 we administered the £4.1m COVID-19 Additional Relief fund to support around 230 businesses affected by the pandemic but that were ineligible for existing support linked to non-domestic rates.
- The Building Better Opportunities Wise Steps programme has helped over 500 residents with multiple and complex issues to move closer to and into work. The European Social Fund project concluded in 2022/23 and provided person-centred support for 112 care leavers, 294 people with disabilities and overall helped residents 128 move into employment.
- We established a "skills hub" in partnership with the Department for Work and Pensions and training providers at Metrocentre Jobcentre Plus to enable residents to benefit from one-to-one information, advice, and guidance upon becoming unemployed.

Homes

- The Housing Asset Management Strategy 2022-27 outlines extensive plans to balance the Housing Revenue Account (HRA) by investing in viable housing stock whilst 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.
- Assisted tenants to respond to the rising energy bills by working in partnership with external agencies.
- Invested heavily in Construction services to ensure that residents experience a better service when it comes to repairs and maintenance of their property.
- Completion of Astell House, Felling, which provides twelve self-contained apartments for women with supported housing needs.

Other

- The Queen's Baton Relay, the traditional way of heralding the arrival of the Commonwealth Games, made its way through Gateshead in July ahead of the Games in Birmingham in summer 2022. The Baton, carried by local people, started at the Angel of the North before making its way to Saltwell Park then on to the Quayside.
- The Council has been awarded £5m to fund the development of its research capabilities over the next five years, to help tackle health inequalities. Gateshead is one of 10 local authorities to receive funding as part

of a £50m investment by the National Institute for Health and Care Research (NIHR). The funding will enable the council to develop a Health Determinants Research Collaboration (HDRC) with Newcastle University, which will equip us with the skills, expertise and capacity to plan and deliver research that will ultimately help residents to live healthier and more fulfilling lives.

- In October 2022, a new improved system for taking payments over the phone went live following record levels of online payments during the pandemic.

Outlook

Economic Challenges

Inflation throughout 2022/23 reached unprecedent highs of 10%. The economy also experienced increases in interest rates throughout 2022/23. Higher interest may lead to better investment returns, but high inflation erodes the value of money reducing the amount of services the Council can fund.

The cost-of-living crisis impacts on all sections of society, not just local government, but as households struggle with rising costs it is anticipated that demand for Council services, particularly in Adult and Children's social care, will increase.

Devolution

In December 2022, the Secretary of State for Levelling up, Housing and Communities announced the North East devolution deal. The deal covers Gateshead, North and South Tyneside, Sunderland, County Durham, Newcastle and Northumberland. The deal provides a range of funding and powers for the new Combined Authority and will see a new Mayor elected in 2024. The new North East Mayor will have the ability to introduce bus franchising, influence rail infrastructure, and manage a £730 million transport funding package up to 2028. There are specific transport policy commitments, including capacity upgrades for the A19 and the East Coast Main Line, and recognition that major rail projects will need central government funding, for example reopening the Leamside Line and extending the Tyne and Wear Metro.

The new deal includes £17.4 million to develop brownfield land for housing, as well as £20 million for wider housing regeneration, and a commitment to co-commission affordable housing.

On skills, the deal makes available a fully devolved adult education budget, estimated at £44m a year. Along with shaping the adult education offer to improve digital and green skills, this budget could also be used to strengthen relationships between industry, universities, and local colleges. The new combined authority will have influence over the local skills improvement plan, and will be committed to expanding child poverty prevention work.

Revenue budget 2023/24

Council agreed the revenue budget for 2023/24 at its meeting on 28 February 2023. This was set at £289.903m (excluding schools).

Capital Programme 2023/24

On 28 February 2023, the Council approved a capital programme of £112.1m for 2023/24, which included £22.5m 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.

Special Education Needs and Alternative Provision Improvement Plan

On 2 March 2023 the Government published the SEND and Alternative Provision Improvement Plan Right Support, Right Place, Right Time. By the end of 2025 a significant proportion of National Standards will be in operation with additional government funding to deliver new places and improve existing provisions for children and young people with SEND. The Council will need to provide improved information to families and provide a tailored list of suitable settings, creating a three-tier alternative provision system with a focus on targeted early support within mainstream school, time-limited intensive placements in an alternative provision setting, and longer-term placements to support return to mainstream or a sustainable post-16 destination.

Social Housing Regulation

The Social Housing Regulation Bill aims to address the concerns raised following the Grenfell Tower fire in 2017. The bill includes:

- Requiring social landlords to investigate and fix reported hazards in their homes within a specified time frame or rehouse tenants where a home cannot be made safe.
- New powers for the Housing Ombudsman to help social landlords improve performance by instructing them to self-assess against guidance during a complaint investigation.

- Enabling the Social Housing Regulator to set a standard relating to information and transparency requiring social landlords to provide residents with information on how they can make a complaint against them.
- requiring all social housing managers to have a professional qualification.

The bill will have wide impacts on the delivery and management of social housing especially in terms of inspections, work planning, and recruitment.

Economic Growth

On 2 June 2015, Cabinet approved the appointment of a development partner for NewcastleGateshead Quays, which will assist with major regeneration plans and non-domestic rates growth. The Council and its Development Partners ASK and Patrizia UK have been progressing the necessary pre-construction work, 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 commenced in 2022/23 on the site enabling works with phased construction expected to commence in the financial year 2023/24. The scheme is expected to strengthen NewcastleGateshead's position as a world class location for events and business activity.

Strategic Risks

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 key strategic risks presented in the Council's Strategic Risk Register are as follows:

- The risk that the Council fails to address the financial gap in the Council's budget and achieve the target within the Medium Term Financial Strategy which would result in the non-achievement of the Council's strategic priority: *Making Gateshead a Place Where Everyone Thrives*.
- The risk that the Council fails to manage demand and expectations.
- The risk that the Council fails to safeguard vulnerable children and adults.
- The risk that the Council fails to attract inward investment and deliver sustainable economic growth.
- The risk that the Council fails to comply with statutory requirements resulting in prosecution and subsequent penalties.
- The risk that the Council fails to address workforce planning and resourcing requirements impacting on service delivery.
- The risk that the Council fails to provide a response during a major incident or business interruption affecting availability of the Council's resources and impacting on ability to deliver critical services or an impact on a community.
- The risk that the Council fails to properly assess the implications of the EU Exit which could then affect the availability of Council's resources to deliver services.
- The risk that the Council is hit by a cyber-attack that compromises the confidentiality, integrity and availability of information and systems.
- The risk that the Council fails to comply with the housing regulatory standards applicable to local authorities.

All these potential risks are mitigated in the Strategic Risk Register.

The Statement of Accounts

The Statement of Accounts is set out on pages 19 to 94. The Statement covers the financial year from 1 April 2022 to 31 March 2023, 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 (page 17) explains both the Council's and the Strategic Director, Resources and Digital responsibilities in respect of the Statement of Accounts.

Financial Statements (pages 19 to 94):

Movement in Reserves Statement (page 19) 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 (page 20) 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 (page 21) shows the Council's financial position and net assets at the start and end of the financial year. It summarises the long-term and current assets that are used in carrying out the Council's activities, together with its liabilities.

Cash Flow Statement (page 22) summarises the cash and cash equivalent receipts and payments of the Council arising from transactions with third parties.

Notes to the Financial Statements (p23 to 87) provide additional information for significant items to support the statements above.

Housing Revenue Account (HRA)
HRA Income and Expenditure Statement (page 88) 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 (page 88) 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 (pages 89 to 92) provide additional information to support the HRA statements.

Collection Fund
The Collection Fund Statement (page 93) shows the transactions of the Council in relation to non-domestic rates and council tax and illustrates the way in which these have been distributed to preceptors and the General Fund.
Notes to the Collection Fund Statement (page 94) provide additional information to support the Collection Fund Statement.

Documents Supporting the Statement of Accounts

Annual Governance Statement (page 95 to 101), required by regulations to accompany the Statement of Accounts, outlines the Council's approach to corporate governance and internal control.

Independent Auditor's Report (page 102) details the basis of the external auditor's opinion on the Statement of Accounts.

Glossary of Terms (pages 106 to 112) includes a description of the key terms used in the Statement of Accounts, along with explanations of any technical terms.

Contacts (page 113) 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), as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets ("the Code Update"), published in November 2022.

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 2023, 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 as at 31 March 2023 and of its income and expenditure for the year ended 31 March 2023.

Signed: Date: 31/05/2023

Darren Collins
Strategic Director, Resources and Digital & Borough Treasurer

Part 2: Financial Statements

Movement in Reserves Statement

	Note	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total usable reserve	Unusable reserves	Total reserves
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance as at 31 March 2021		**22,879**	**87,829**	**30,787**	**0**	**11,370**	**5,037**	**157,902**	**29,222**	**187,124**
Movement in reserves during the year										
Total comprehensive income and (expenditure)		(44,384)	0	6,065	0	0	0	(38,319)	363,267	324,948
Absorption of the Gateshead Housing Company		572	0	0	0	0	0	572	(572)	0
Adjustments between accounting basis and funding basis under statutory provisions	**6a**	38,380	(3,258)	(10,691)	0	1,267	1,917	27,615	(27,615)	0
Increase or (decrease) in year		**(5,433)**	**(3,258)**	**(4,626)**	**0**	**1,267**	**1,917**	**(10,132)**	**335,080**	**324,948**
Balance as at 31 March 2022	**6b**	**17,446**	**84,571**	**26,160**	**0**	**12,637**	**6,954**	**147,769**	**364,302**	**512,071**
Movement in reserves during the year										0
Total comprehensive income and (expenditure)		(38,415)	0	(18,480)	0	0	0	(56,895)	568,524	511,629
Adjustments between accounting basis and funding basis under statutory provisions	**6a**	41,119	(9,837)	11,881	0	6,337	5,701	55,201	(55,201)	0
Increase or (decrease) in year		**2,704**	**(9,837)**	**(6,599)**	**0**	**6,337**	**5,701**	**(1,694)**	**513,323**	**511,629**
Balance as at 31 March 2023	**6b**	**20,150**	**74,734**	**19,561**	**0**	**18,974**	**12,655**	**146,074**	**877,625**	**1,023,699**

Comprehensive Income and Expenditure Statement

RESTATED 2021/22				2022/23			
Gross Exp. £000s	Gross Income £000s	Net Exp. £000s	**Service**	Gross Exp. £000s	Gross Income £000s	Net Exp. £000s	Notes
105,807	(50,214)	55,593	Children's Social Care and Lifelong Learning	114,475	(57,680)	56,795	32
127,673	(75,493)	52,180	Integrated Adults and Social Care Services	133,618	(81,180)	52,438	32
13,157	(3,558)	9,599	Corporate Services and Governance and Office of the Chief Executive	14,614	(4,041)	10,573	
23,596	(10,517)	13,079	Economy, Innovation and Growth	29,192	(13,586)	15,606	
103,799	(49,486)	54,313	Housing, Environment and Healthy Communities	88,190	(46,787)	41,403	
19,393	(7,070)	12,323	Other Corporate Income and Expenditure	8,439	(5,350)	3,089	
28,554	(23,693)	4,861	Public Health and Wellbeing	23,361	(27,548)	(4,187)	
78,093	(61,079)	17,014	Resources and Digital (including Housing Benefits)	89,407	(60,758)	28,649	
94,056	(90,359)	3,697	Schools	92,128	(86,828)	5,300	
63,540	(81,273)	(17,733)	Housing Revenue Account	87,327	(82,708)	4,619	
657,668	**(452,742)**	**204,926**	**Cost of services**	**680,751**	**(466,466)**	**214,285**	8
		13,530	Other operating expenditure			13,586	7a
		41,378	Financing and investment income and expenditure			37,895	7a
		(221,515)	Taxation and non-specific grant income			(208,871)	7a
		38,319	**(Surplus) or deficit on provision of services**			**56,895**	
		(171,116)	(Surplus) or deficit on revaluation of non-current assets			(36,884)	17
		(261,990)	Re-measurements of the net defined benefit liability			(531,640)	25
		(3,251)	(Surplus) or deficit on financial assets measured at fair value through other comprehensive income			0	26
		73,088	Other (gains)/losses			0	
		(363,269)	**Other comprehensive (income) and expenditure**			**(568,524)**	
		(324,950)	**Total comprehensive (income) and expenditure**			**(511,629)**	

Please note all amounts included above relate to continuing operations

Balance Sheet

31/03/2022 £000s		31/03/2023 £000s	
1,605,451	Property, plant and equipment	1,644,002	17
28,575	Heritage assets	28,728	18
171	Investment property	108	
4,390	Intangible assets	5,300	
12,445	Non-current investments	12,445	26
31,813	Non-current debtors	34,846	22
1,682,845	**Non-current assets**	**1,725,429**	
116,118	Current investments	66,051	26
971	Assets held for sale	470	
2,199	Inventories	1,470	
98,648	Current debtors	83,138	22
28,128	Cash and cash equivalents	6,978	21
246,064	**Current assets**	**158,107**	
(11,363)	Cash and cash equivalents	(3,265)	21
(16,823)	Current borrowing	(40,505)	26
(8,670)	Current provisions	(8,548)	24
(26,109)	Revenue Grants received in advance	(22,545)	10
(7,076)	Capital Grants received in advance	(3,912)	10
(133,736)	Current creditors	(63,824)	23
(203,777)	**Current liabilities**	**(142,599)**	
(51,955)	Non-current creditors	(49,154)	23
(9,368)	Non-current provisions	(8,614)	24
(654,966)	Non-current borrowing	(650,667)	26
(496,770)	Pensions liability	(8,800)	25
(1,213,059)	**Non-current liabilities**	**(717,235)**	
512,073	**Net assets**	**1,023,702**	
	Usable reserves:		
12,636	Capital Receipts Reserve	18,974	
6,954	Capital Grants Unapplied	12,655	
8,500	General Fund - General Reserve	11,873	
8,946	General Fund - LMS Reserve	8,280	
26,160	Housing Revenue Account	19,561	
84,570	Earmarked Reserves	74,734	
0	Major Repairs Reserve	0	
147,766	**Total usable reserves**	**146,077**	
364,307	**Unusable reserves**	**877,625**	
512,073	**Total reserves**	**1,023,702**	6b

Signed: J Collins **Date: 31/05/2023**

Darren Collins
Strategic Director, Resources and Digital & Borough Treasurer

Cash Flow Statement

2021/22 £000s		2022/23 £000s	Notes
38,319	**Net (surplus) or deficit on the provision of services**	56,895	
(177,009)	Adjustments to net (surplus) or deficit on the provision of service for non-cash movements	(57,870)	
36,165	Adjustments for items included in the net (surplus) or deficit on the provision of service that are investing or financing activities	24,738	
(102,525)	**Net cash flows from operating activities**	**23,763**	28
117,210	Investing Activities	5,244	28
(36,245)	Financing Activities	(15,955)	28
(21,560)	**Net (increase)/ decrease in cash and cash equivalents**	**13,052**	
(4,795)	**Cash and cash equivalents at 1st April**	**16,765**	
16,765	**Cash and cash equivalents at 31st March**	**3,713**	21

Notes to the Financial Statements

1. Significant Accounting Policies

This Statements of Account summarises the Council's transactions during the financial year and its position at the year-end. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, and these Regulations require the Statement of Accounts to be prepared in accordance with proper accounting practices. These practices, under Section 21 of the Local Government Act 2003, primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2022/2023, as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets ("the Code Update"), published in November 2022 and supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted is principally 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 below, and the accounts have been prepared on the basis of continued provision of services i.e. a *going concern* basis.

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

1.1. Accruals of Income and Expenditure

Activity is accounted for in the year in which 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 based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract; and
- Where revenue and expenditure have been recognised but cash has not been received or paid (subject to a *de minimis* threshold of £10,000 within the Council's accounts), a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to the CIES for the income that might not be collected.

1.2. Charges to revenue for non-current assets

Services, support services and trading accounts are charged an accounting estimate of the cost of holding non-current assets during the year. This comprises:

- Depreciation attributable to the asset used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the revaluation reserve against which the losses can be written off
- Amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation, impairment losses or amortisation. However, it is required to make an annual contribution 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, impairment losses and amortisation 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.

1.3. 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 current or non-current investments depending on the remaining term to maturity of the investment.

1.4. Government and non-government grants and contributions

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

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

Amounts recognised as due are not credited to the Comprehensive Income and Expenditure Statement (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 regards 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 £0.855m in 2022/23 (£0.879m in 2021/22).

1.5. Leases

Council as a Lessor

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.

1.6. Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- Its assets, including its share of assets held jointly;
- Its liabilities, including its share of liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operations; and
- Its expenses, including its share of any expenses incurred jointly.

1.7. 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.

1.7.1.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.

1.7.2.Measurement

Assets are initially measured at cost, comprising:

- the purchase price.
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred while assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e., it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the taxation and non-specific grant income and expenditure line of the Comprehensive Income and Expenditure Statement unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the donated assets account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund balance to the capital adjustment account in the Movement in Reserves Statement

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

Asset Type	**Measurement**
Infrastructure	Depreciated historical cost. However, this is a modified form of historical cost. Opening balances were originally recorded at amounts of capital undischarged for sums borrowed as at 1 April 1994, which was deemed at that time to be historical cost.
Community, vehicles, plant & equipment and assets under construction (excluding investment property)	Historical cost, net of depreciation, where appropriate
Dwellings	Current value, determined as the amount that would be paid for the asset in its existing use (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 depreciated replacement cost (DRC) is used as an estimate of current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every three years. To ensure that this takes place a rolling programme of valuations has been put in place by the Property Services Manager.

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).

Valuations are carried out by Jones Lang LaSalle (JLL), as at 1 December, in the reporting period. The Council's Energy from Waste and District Energy assets are subject to specialist valuations carried out by Hilco.

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 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.

Voluntary Aided Church schools and Foundation schools where the asset is not owned by the Council are not included on the Council's Balance Sheet. Assets for schools that transfer to Academy status are transferred on a long lease with peppercorn rental and the asset is in effect owned by the school and its asset value is not therefore included on the Council's Balance Sheet. Community school assets are included on the Council's Balance Sheet

1.7.3.Impairment

Assets are assessed at each year-end as to whether there is any indication that they may be impaired. Where indications of impairment exist, the overall estimated level of impairment is considered and, if material, the recoverable amounts of each of the affected assets are estimated. Where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

1.7.4.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:

Asset Category	**Years**
Buildings (depending on use/construction /condition)	15-50
Computers and other equipment	3-10
Vehicles (depending on make/model/use)	3-10
Council Dwellings	50
Solar Panels	20
Roads (depending on use/construction /condition)	25-30
Footpaths and cycleways (depending on construction /condition)	20-25
Structures	120
Traffic Management Systems	20
Street Furniture	25
Streetlighting	40
Other infrastructure	10-40

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

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

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

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

1.7.5. Surplus Property and Fair Value Measurement

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.

1.7.6. 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, Infrastructure 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.

The written off amounts on disposal are not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are transferred to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

1.8. Heritage Assets

Heritage assets are recognised and measured in accordance with the Council's accounting policies on property, plant, and equipment.

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 Council's 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.

As heritage assets are considered 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.

1.9. Private Finance Initiative (PFI) and Similar Contracts

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).

1.10. 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.

1.11. Contingent Liability

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 but disclosed in a note to the accounts.

1.12.Employee Benefits

1.12.1.Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g., cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g., time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year.

The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement to the Accumulated Absences Account so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

1.12.2 Termination benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. They are charged on an accrual basis to the appropriate service at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

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

1.12.3 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:

Defined contribution plan: Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, which is administered by the Capital Teachers' Pensions[1]. 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 Teachers' Pension Scheme 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.

Defined benefit plan: Tyne and Wear Pension Fund

The Tyne and Wear Pension Fund[2], 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

[1] See www.teacherspensions.co.uk/
[2] See www.twpf.info

(comprising return on plan assets and actuarial gains / losses) and contributions paid to the Fund.

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

The scheme is accrued in accordance with the requirements of International Accounting Standard 19 *Employee Benefits*[1] (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.

1.12.4 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 and the Housing Revenue Account via the Movement in Reserves Statement.

1.12.5 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.

1.13 Financial Instruments

1.13.1 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).

1.13.2 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

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

reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

1.13.3 Expected Credit Loss Model

The Council recognises expected credit losses on all 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.

1.13.4 Financial Assets Measured at Fair Value through Profit or 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

1.13.5 Fair Value measurements of Financial Assets

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. 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.

1.13.6 Financial Assets Measured at Fair Value through Other Comprehensive Income

The Council has designated its Newcastle Airport and SCAPE System Build Ltd equity instruments 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.

All movements in price of shares elected as Fair value through Other Comprehensive Income will impact on gains and losses recognised in the Financial Instruments Revaluation Reserve.

1.13.7 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.

1.14 Exceptional Items

When items of income and expenditure are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

1.15 Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors and Portfolio Restatements

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period. The reason and impact of any necessary adjustments are explained in more detail in the accounts as required.

Where major service responsibilities have changed within the Council's reporting structure, the prior period disclosures relating to service have been restated to facilitate comparison with the current year. For 2022/23 some of the notes have been restated to show the comparators for Integrated Adults and Social Care Services and Children's Social Care and Lifelong Learning.

1.16 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance so that there is no net charge against Council Tax for the expenditure. Certain reserves are maintained to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council. The purpose of each reserve is explained in note 6b.

1.17 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in

Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged to the Comprehensive Income and Expenditure Statement so that there is no impact on the level of Council Tax.

1.18 Fair Value measurement of non-financial assets

The Council's accounting policy for fair value measurement of financial assets is set out in note 1.13.5. The authority also measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

The fair value measurement assumes that the transaction to sell the asset takes place either:

- in the principal market for the asset, or
- in the absence of a principal market, in the most advantageous market for the asset.

The Council measures the fair value of an asset using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest. When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use 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 in respect of assets for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

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

1.19 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.

1.20 Council Tax and Non-domestic Rates

The Council acts as an agent, collecting council tax and non-domestic rates on behalf of the major preceptors (including the Government) and, as a principal, collecting council tax and non-domestic rates for itself. The Council is required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of the amounts due in respect of council tax and non-domestic rates. Under the legislative framework for the collection fund, billing authorities, major preceptors, and central government (for non-domestic rates) share proportionately the risks and rewards that the amount of council tax and non-domestic rates collected could be less or more than predicted.

Council tax and non-domestic 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.

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:

Area	Judgement
Leases	Determination as to whether lease arrangements are finance or operating leases. Factors taken into consideration include: the type and length of lease, the rights of control over assets, the net present value of the minimum lease payments. A significant lease the Council has assessed as an operating lease due to the rights of control over the assets relates to Gateshead Town Centre. This lease accounts for 56% of the operating lease total in note 11.
PFI	Determination as to whether PFI assets and liabilities are on- or off-Balance Sheet. All Council PFI arrangements are currently on Balance sheet.
Future Government Funding	Council assets may be impaired if there is a need to close facilities / reduce levels of service provision.
Group Accounts	The Council undertakes a complex range of activities which can include partnerships with external organisations. Where such organisations are in partnership or under the control of the Council a judgement is made as to whether they are within the Council's group boundary and as such group accounts need to be completed. An assessment of those entity's profit and loss, value of assets and net worth is made and where material the entities are included in the group accounts. This assessment also takes into consideration qualitative factors such as whether the entity in question is crucial to the provision of a statutory service or whether the Council may be exposed to significant commercial risk. Please see Note 15 for further details on the Council's related parties.
Pensions - 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. It is not yet clear what impact this may have so no allowance has been made for this potential liability in the accounts.
Pensions - 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 un-paused, 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 trade unions. In March 2023 the High Court dismissed the judicial review however trade unions have applied for permission to appeal the decision and if successful on appeal 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. It is not yet clear whether an appeal will be granted, therefore no allowance has been made for the potential cost of improving members' benefits under these reviews within the accounts.

Pension assets and liabilities valuations	Assets and liabilities valuations 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. 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 2022/23 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. As per the Actuary’s terms of reference the council agreed that the approach taken to determine the liability is closely aligned with the methods proposed by MHCLG (now DLUHC) in its consultation issued in July 2020. From 1 October 2023 the McCloud age discrimination will be removed and qualifying younger members will receive the underpin protection. The underpin protection only applies to pension built up in the remedy period, between 1 April 2014 and 31 March 2022.
Financial Assets	The Council holds a 13.33% share in Newcastle Airport Local Authority Holding Company Limited (NALAHCL). Following the adoption of accounting standard IFRS 9 Financial Instruments which came into effect on 1 April 2018, the default position method of the equity holding in the airport would be Fair Value through Profit and Loss. However, the shareholding is a strategic investment and not held for trading and therefore the Council has designated the investment as Fair Value through Other Comprehensive Income. It is the Council's view that this is a reasonable and reliable accounting policy for the investment. For further details please see Note 15.

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.

There have been no events after the balance sheet date.

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 Council follows the requirements of the Code and retrospectively makes relevant changes to opening balances when a change in accounting policy is introduced unless the Code allows transitional provisions to be followed.

The new/amended standards that may affect the Statement of Accounts from 1 April 2023 are:

- Definition of Accounting Estimates (Amendment to IAS 8) issued in February 2021.
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) issued in February 2021.
- Updating a Reference to the Conceptual Framework (Amendments to IFRS 3) issued in May 2020.

These changes are not expected to have a material impact on the 2022/23 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 2023 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Area	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment (Asset Valuations)	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. See note 17 for more details on Property, Plant and Equipment.	The gross book value (GBV) of the Council's land and buildings and surplus assets is £1,565.74m at 31 March 2023. Although the impact of a change in valuations cannot be accurately quantified, a 1% change gives an indication that changes in valuations, which are a result of complex assumptions and indices, could be material.
Debtors	At 31 March 2023, the Council had a balance of debtors of £98.959m. A review of significant balances suggested that an impairment of doubtful debts of 16.0% (£15.820m) was appropriate. However, in the current economic climate and in the light of the Covid-19 pandemic impact it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, an increase in the amount of the impairment of doubtful debts would be required.
Pension net liability (valuation)	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.	For funded benefits, the effects on the net pension liability of changes in individual assumptions can be measured. Details relating to the sensitivity of each assumption can be found in note 25.
Fair Value measurements – surplus assets and equity investments	When the fair values of financial assets cannot be measured based on quoted prices in active markets (i.e., Level 1 inputs), their fair value is measured using valuation techniques (e.g., quoted prices for similar assets in active markets or the discounted cash flow (DCF) 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. Where Level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example, for surplus assets, the Council's chief valuation officer). Information about the valuation techniques and inputs used in determining the fair value of the Council's assets is disclosed in notes 26.	The Council uses the market approach that compares the asset to be valued with the prices obtained for other similar assets and the income approach that capitalises the potential income of the asset to measure the fair value of its surplus assets. For the Council's equity investments, significant changes in any of the unobservable inputs would result in a significantly higher or lower fair value. As the equity investments relating to the Airport have been elected as 'fair value through other comprehensive income', all movements in fair value will impact on gains and losses recognised in the Council's unusable reserves.

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:

	2022/23 movements (£000s)						
	General Fund balance	Earmarked reserves	HRA	MRR	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
Adjustments primarily involving the capital adjustment account: Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:							
Charges for depreciation and impairment of non-current assets	36,629	0	0	19,254	0	0	(55,883)
Revaluation (losses) of property, plant and equipment *(charged to surplus or deficit on provision of services)*	(2,773)	0	5,591	0	0	0	(2,818)
Amortisation of intangible assets	1,113	0	0	10	0	0	(1,123)
Capital grants and contributions applied	(16,404)	0	(1,047)	0	0	8,783	8,668
Revenue expenditure funded from capital under statute	3,530	0	0	0	0	0	(3,530)
Amounts of current and non-current assets written off as part of the loss on disposal	617	0	1,077	0	0	0	(1,694)
Other movements	63	0	0	0	0	0	(63)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:							
Provision for the financing of capital investment	(15,398)	0	0	0	0	0	15,398
Capital expenditure charged against balances	(1,080)	0	0	0	0	0	1,080
Adjustments primarily involving the capital receipts reserve and the major repairs reserve:							
Transfer of cash sale proceeds credited as part of the loss on disposal	0	0	0	0	7,303	0	(7,303)
Use of the capital receipts reserve to finance new capital expenditure	0	0	0	0	(966)	0	966
Contribution towards administrative costs of non-current asset disposals	11	0	184	0	0	0	(195)
Use of the major repairs reserve to finance new capital expenditure	0	0	0	(19,264)	0	0	19,264
Adjustments primarily involving the pensions reserve:							
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 25)	37,594	0	6,076	0	0	0	(43,670)
Other adjustments between reserves:							
Amount by which finance costs charged are different from finance costs chargeable in accordance with statutory requirements	(473)	0	0	0	0	0	473
Amount by which council tax is different from income in accordance with statutory requirements	(371)	0	0	0	0	0	371
Amount by which non-domestic rates are different from income in accordance with statutory requirements	(11,776)	0	0	0	0	0	11,776
Other movements	9,837	(9,837)	0	0	0	(3,082)	3,082
Total adjustments between accounting basis & funding basis under regulations	**41,119**	**(9,837)**	**11,881**	**0**	**6,337**	**5,701**	**(55,201)**

	General Fund balance	Earmarked reserves	HRA	MRR	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
	2021/22 movements (£000s)						
Adjustments primarily involving the capital adjustment account: Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:							
Charges for depreciation and impairment of non-current assets	33,186	0	0	16,663	0	0	(49,849)
Revaluation (losses) of property, plant and equipment *(charged to surplus or deficit on provision of services)*	7,831	0	(11,132)	0	0	0	3,301
Amortisation of intangible assets	1,113	0	8	0	0	0	(1,121)
Capital grants and contributions applied	(28,402)	0	(1,508)	0	0	4,663	25,247
Revenue expenditure funded from capital under statute	6,313	0	0	0	0	0	(6,313)
Amounts of current and non-current assets written off as part of the loss on disposal	767	0	(862)	0	0	0	95
Other movements	193	0	0	0	0	(2,746)	2,553
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:							
Provision for the financing of capital investment	(20,163)	0	0	0	0	0	20,163
Capital expenditure charged against balances	(1,563)	0	(4,512)	4,512	0	0	1,563
Adjustments primarily involving the capital receipts reserve and the major repairs reserve:							
Transfer of cash sale proceeds credited as part of the loss on disposal	0	0	0	0	6,958	0	(6,958)
Use of the capital receipts reserve to finance new capital expenditure	0	0	0	0	(3,077)	0	3,077
Contribution towards administrative costs of non-current asset disposals	14	0	186	0	0	0	(200)
Contribution towards the payments to the Government capital receipts pool	2,614	0	0	0	(2,614)	0	0
Use of the major repairs reserve to finance new capital expenditure	0	0	0	(21,175)	0	0	21,175
Adjustments primarily involving the pensions reserve:							
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 25)	48,480	0	6,980	0	0	0	(55,460)
Other adjustments to unusable reserves:							
Amount by which finance costs charged are different from finance costs chargeable in accordance with statutory requirements	(476)	0	0	0	0	0	476
Amount by which council tax is different from income in accordance with statutory requirements	(22,937)	0	0	0	0	0	22,937
Amount by which non-domestic rates are different from income in accordance with statutory requirements	8,976	0	0	0	0	0	(8,976)
Employee benefits accrued during the year	0	0	(423)	0	0	0	423
Other movements	2,434	(3,258)	572	0	0	0	252
Total adjustments between accounting basis & funding basis under regulations	**38,380**	**(3,258)**	**(10,691)**	**0**	**1,267**	**1,917**	**(27,615)**

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):

31/03/2022 £000s		Transfers in £000s	Transfers out £000s	31/03/2023 £000s
	Useable reserves			
	General Fund balance:			
8,500	General Reserve	3,373	0	11,873
8,946	LMS Budget Share Reserve	0	(666)	8,280
17,446	**General Fund**	3,373	(666)	**20,153**
	Earmarked General Fund reserves:			
9,394	Financial Risk and Resilience	10,026	(257)	19,163
8,444	Thrive	562	(1,493)	7,513
20,015	Budget Sustainability	22,503	(5,818)	36,700
25,581	Pandemic Services Impact	5,727	(31,308)	0
12,866	Pandemic Impact Collection Fund	0	(12,866)	0
2,019	Developers' contributions	741	(580)	2,180
1,390	Unapplied revenue grants	301	(296)	1,395
2,607	Public health	1,554	(342)	3,819
2,255	Dedicated Schools Grant (DSG)	1,709	0	3,964
84,571	**Total earmarked General Fund reserves:**	43,123	(52,960)	**74,734**
26,160	Housing Revenue Account (HRA) balance	11,880	(18,479)	19,561
	Earmarked HRA reserves:			
0	Major Repairs Reserve	19,264	(19,264)	0
12,636	Capital Receipts Reserve	7,303	(965)	18,974
6,954	Capital Grants Unapplied	8,783	(3,082)	12,655
147,767	**Total usable reserves**	93,726	(95,416)	**146,077**
	Unusable reserves			
393,780	Revaluation Reserve	36,884	(12,843)	417,821
485,268	Capital Adjustment Account	59,117	(70,530)	473,855
(17,850)	Financial Instrument Adjustment Account	473	0	(17,377)
12,446	Financial Instrument Revaluation Reserve	0	0	12,446
76	Deferred Capital Receipts Reserve	100	0	176
(9,879)	Collection Fund Adjustment Account	0	12,147	2,268
(2,764)	Accumulated Absences Account	0	0	(2,764)
(496,770)	Pensions Reserve	531,640	(43,670)	(8,800)
364,307	**Total unusable reserves**	628,214	(114,896)	**877,625**
512,074	**Total reserves of the Council**	721,940	(210,312)	**1,023,702**

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. As part of the 2022/23 outturn, it is proposed that the Pandemic Services Impact reserve is merged with the Budget Sustainability reserve to support the budget over the MTFS.

General Fund

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.

Housing Revenue Account (HRA)
The Housing Revenue Account 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[6]. 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.

Reserve	Purpose
Financial Risk and Resilience	To set aside funds in respect of key financial risks identified through risk management such as the risks in relation to non-domestic rates, insurance, grant clawback and budget flexibility.
Thrive	To support key Council priorities.
Budget Sustainability	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 2022/23 and beyond. It is proposed that this reserve is merged with the Budget Sustainability reserve to support the MTFS
Pandemic Impact Collection Fund	Funding to mitigate the deficit in the collection fund in relation to council tax and non-domestic rates.
Developers' contributions	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	Unused grants and contributions, without conditions attached, should be appropriated to reserves to fund future expenditure rather than creating creditors on the Balance Sheet. This reserve represents an accounting treatment.
Public health	Ring-fenced for future Public Health use.
Dedicated schools grant (DSG)	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.

Capital Reserves

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

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

Unusable Reserves

Reserve	Purpose
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.
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.
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.
Financial Instruments Adjustment Account	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.
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.
Collection Fund Adjustment Account	Manages the differences arising from the recognition of council tax income and non-domestic 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.
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 2023. Statutory arrangements require that the impact on the General Fund is neutralised by transfers to/from the account.
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.

7. Comprehensive Income and Expenditure Statement (CIES) information

a. Analysis of items below Cost of Services

2021/22 £000s		2022/23 £000s
	Other operating expenditure	
105	(Gains) / losses on the disposal of non-current assets	1,889
0	Precepts and levies:	0
174	Environment Agency levy	175
22	Tyne Port Health Authority precept	22
10,603	North East Combined Authority levy	11,488
12	Lamesley Parish Council precept	12
2,614	Payments to the housing capital receipts pool	0
13,530		**13,586**
	Financing and investment income and expenditure	
26,759	Interest payable and similar charges	27,347
14,570	Net interest on defined benefit liability / (asset)	13,000
(2,316)	Interest receivable and similar income	(4,880)
0	Gains and losses arising from the derecognition of financial assets measured at amortised cost	0
0	Gains/losses, dividends and gains/losses on derecognition for financial instruments classified as fair value through profit or loss	0
0	Impairment losses (including reversals of impairment losses or impairment gains) on financial instruments	0
2,365	Other investment (income)/expenditure	2,428
41,378		**37,895**
	Taxation and non-specific grant income	
(100,745)	Council tax income	(104,082)
(33,036)	Non-domestic rates income and expenditure	(36,826)
(57,824)	Non-ringfenced government grants	(50,512)
(29,910)	Capital grants and contributions	(17,451)
(221,515)		**(208,871)**

b. 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:

- £55.883m depreciation - see Notes 6a, 17 and HRA Notes 5 and 6;
- £2.818m revaluation loss - see Notes 6a, 17 and HRA Notes 5 and 6;
- (£457.24m) pensions charges to the CIES (funded and unfunded) – see Note 25;

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 non-domestic 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:

2021/22 RESTATED				2022/23		
Net expenditure chargeable to the General Fund / HRA £000s	Adjustments between funding and accounting basis £000s	**Net expenditure in the CIES £000s**		Net expenditure chargeable to the General Fund / HRA £000s	Adjustments between funding and accounting basis £000s	**Net expenditure in the CIES £000s**
41,556	14,037	**55,593**	Children's Social Care and Lifelong Learning	51,808	4,987	**56,795**
76,552	(24,372)	**52,180**	Integrated Adults and Social Care Services	79,824	(27,386)	**52,438**
6,271	3,329	**9,600**	Corporate Services and Governance and Office of the Chief Executive	7,469	3,104	**10,573**
3,190	9,888	**13,078**	Economy, Innovation and Growth	4,246	11,360	**15,606**
21,090	33,224	**54,314**	Housing, Environment and Healthy Communities	24,262	17,141	**41,403**
5,197	(22,931)	**(17,734)**	Housing Revenue Account (HRA)	6,598	(1,979)	**4,619**
9,352	2,972	**12,324**	Other Corporate Income and Expenditure	7,643	(4,554)	**3,089**
20,293	(15,432)	**4,861**	Public Health and Wellbeing	21,882	(26,069)	**(4,187)**
10,086	6,927	**17,013**	Resources and Digital	12,875	15,774	**28,649**
(31)	3,729	**3,698**	Schools	666	4,634	**5,300**
193,556	**11,371**	**204,927**	**Net Cost of Services**	**217,273**	**(2,988)**	**214,285**
5,900	(5,900)	0	Review of Strategic Reserves	0	0	0
(188,822)	22,217	(166,605)	Other income and expenditure	(213,378)	55,988	(157,390)
10,634	**27,688**	**38,322**	**(Surplus) / Deficit**	**3,895**	**53,000**	**56,895**
		53,665	**Opening General Fund and HRA balance**	**43,606**		
		(10,634)	+/- surplus/(deficit) on General Fund and HRA balance	(3,895)		
		572	Absorption of the Gateshead Housing Company	0		
		43,603	**Closing General Fund and HRA balance**	**39,711**		

Further analysis of the *adjustments between funding and accounting basis* is provided in Note 6a
The CIES breakdown of the *adjustments between funding and accounting basis* total has been provided on the following page
A breakdown of the movement in the surplus/(deficit) on the General Fund and HRA balance can be found in Note 6b

2021/22 RESTATED					2022/23			
Adjustments for capital purposes (Note 1) £000s	Net change for pension adjustments (Note 2) £000s	Other differences (Note 3) £000s	**Total Adjustments £000s**		Adjustments for capital purposes (Note 1) £000s	Net change for pension adjustments (Note 2) £000s	Other differences (Note 3) £000s	**Total Adjustments £000s**
5,607	5,857	2,573	**14,037**	Children's, Social Care and Lifelong Learning	7,335	5,120	(7,468)	4,987
383	4,503	(29,257)	**(24,371)**	Integrated Adults and Social Care Services	415	3,726	(31,527)	(27,386)
0	1,639	1,690	**3,329**	Corporate Services and Governance and Office of the Chief Executive	0	1,388	1,716	3,104
5,844	2,345	1,699	**9,888**	Economy, Innovation and Growth	9,564	1,511	285	11,360
29,930	3,698	(404)	**33,224**	Housing, Environment and Healthy Communities	16,634	3,821	(3,314)	17,141
(27,600)	5,092	(423)	**(22,931)**	Housing Revenue Account (HRA)	(6,360)	4,381	0	(1,979)
(519)	7,639	(4,148)	**2,972**	Other Corporate Income and Expenditure	0	2,649	(7,203)	(4,554)
2,427	1,676	(19,535)	**(15,432)**	Public Health and Wellbeing	(6,112)	1,475	(21,432)	(26,069)
1,597	2,890	2,440	**6,927**	Resources and Digital	7,665	2,530	5,578	15,773
(173)	1,746	2,156	**3,729**	Schools	(13)	862	3,785	4,634
17,496	**37,085**	**(43,209)**	**11,372**	**Net Cost of Services**	**29,128**	**27,463**	**(59,580)**	**(2,989)**
(33,873)	18,376	37,714	22,217	Other income and expenditure from the Expenditure and Funding Analysis	(17,477)	16,208	57,258	55,989
0	0	(5,900)	(5,900)	Review of Strategic Reserves	0	0	0	0
(16,377)	**55,461**	**(11,395)**	**27,689**	**Difference between General Fund (surplus) or deficit and CIES (surplus) / deficit on the Provision of Services**	**11,651**	**43,671**	**(2,322)**	**53,000**

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.

The Council's expenditure and income is analysed as follows:

2021/22 £000s		2022/23 £000s
	Expenditure	
257,440	Employee benefits expenses	254,789
103,314	Other Service expenses	115,524
259,419	Third party and transfer payments	256,418
8,624	Support service recharges	7,977
45,462	Depreciation, amortisation, impairment, and interest payable	50,031
10,812	Precepts and Levies	11,698
2,614	Payments to Housing Capital Receipts Pool	0
687,685		**696,437**
(17,733)	Housing Revenue Account (HRA)	**4,619**
	Income	
(314,312)	Government grants and contributions	(306,383)
(58,413)	Other grants, reimbursements and contributions	(63,095)
(65,650)	Fees, charges and other service income	(68,266)
(2,192)	Interest and investment income	(4,827)
(57,283)	Recharges	(60,682)
(133,781)	Income from council tax and non-domestic rates	(140,908)
(631,631)		**(644,161)**
38,321	**(Surplus) or Deficit on the Provision of Services**	**56,895**

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

2021/22 RESTATED £000s		2022/23 £000s
	Fees, charges and other service income by segment	
(2,345)	Children's Social Care and Lifelong Learning	(2,660)
(16,701)	Integrated Adults and Social Care Services	(18,850)
(27,885)	Housing, Environment and Healthy Communities	(20,276)
(7,872)	Economy, Innovation and Growth	(9,200)
(2,440)	Public Health and Wellbeing	(4,532)
(3,652)	Resources and Digital	(7,963)
(1,808)	Corporate Services and Governance and Office of the Chief Executive	(1,731)
(191)	Other Corporate Income	(213)
(2,756)	Schools	(2,841)
(65,650)	**Total**	**(68,266)**

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 2022. 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 2022/23 are as follows:

	Central expenditure £000s	ISB £000s	Total £000s
Final DSG for 2022/23 before academy and high needs recoupment	34,698	140,708	175,406
Academy and high needs figure recouped for 2022/23	(620)	(69,785)	(70,405)
Total DSG after academy and high needs recoupment 2022/23	**34,078**	**70,923**	**105,001**
Plus: brought forward from 2021/22	1,711	544	2,255
Less: carry-forward to 2023/24 agreed in advance	0	0	0
Agreed initial budgeted distribution in 2022/23	**35,789**	**71,467**	**107,256**
In-year adjustments	(43)	0	(43)
Final budgeted distribution in 2022/23	**35,746**	**71,467**	**107,213**
Less: actual central expenditure	(32,132)	0	(32,132)
Less: actual ISB deployed to schools	0	(71,116)	(71,116)
Plus: local authority contribution for 2022/23	0	0	0
In year Carry-forward to 2023/24	**3,614**	**351**	**3,965**
Plus: Carry-forward to 2023/24 agreed in advance	0	0	0
Carry-forward to 2023/24	**3,614**	**351**	**3,965**

A comparator table for the previous year is shown below:

	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 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)	0	(30,261)
Less: actual ISB deployed to schools	0	(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**

10 Government and non-government grants

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

2021/22 £000s	Credited to Taxation and Non-Specific Grant Income and Expenditure	2022/23 £000s
	Revenue	
(30,696)	Revenue Support and Top Up Grant	(31,659)
(27,129)	Other Grants	(18,853)
(57,825)		**(50,512)**
	Capital Grants, Contributions and Donations:	
(8,141)	Department for Levelling Up, Housing and Communities	(1,330)
(3,789)	Department for Education	(6,792)
0	European Regional Development Fund	0
(17,437)	Other government grants	(6,100)
(15)	Other non-government grants	(2,573)
(528)	Other non-government contributions	(644)
0	Donated assets not attributable to Services	(12)
(29,910)		**(17,451)**
(87,735)	**Total**	**(67,963)**

2021/22 £000s		2022/23 £000s
	Credited to Services	
(30,415)	Department for Levelling Up, Housing and Communities	(32,618)
(128,667)	Department for Education	(129,361)
(55,405)	Department for Work and Pensions	(51,264)
(16,755)	Department for Health and Social Care	(17,225)
(25,248)	Joint / other	(13,582)
(58,413)	Other revenue contributions attributable to Services	(63,095)
(314,903)		**(307,145)**

The Council 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:

31/03/2022 £000s	Revenue Grant Receipts in Advance	31/03/2023 £000s
(25,618)	Other Grants	(22,498)
(448)	Council Tax Energy Rebate MHCLG Grant	(4)
(25)	Estate Regeneration Funding	(25)
(18)	Reward Grant (Job Centre Plus)	(18)
(26,109)		**(22,545)**

31/03/2022 £000s	Capital Grant Receipts in Advance	31/03/2023 £000s
(20)	Section 106 Contributions from Private Developers - Town and Country Planning Act 1990	(20)
(421)	Homes England	(421)
(6,255)	Public Sector Decarbonisation Scheme (BEIS)	(3,041)
(380)	Section 38 and 278 Contributions from Private Developers for Public Highways	(393)
0	Department for Education	(37)
(7,076)		**(3,912)**

11 Operating leases

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:

31/03/22 £000s		31/03/2023 £000s
4,418	Not later than one year	5,347
12,513	Later than one year and not later than five years	13,286
142,673	Later than five years	140,472
159,604		**159,105**

12 Councillors' allowances and expenses

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

2021/22 £000s		2022/23 £000s
810	Basic allowance	848
440	Special responsibility allowance	486
1,250	**Total**	**1,334**

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:

2021/22 £000s		2022/23 £000s
110	Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year (Mazars LLP)	122
18	Fees payable in respect of other services provided by Mazars LLP during the year	19
128	**Total costs**	**141**

The table above represents fees agreed between the Council and their external auditor, however additional work on specific issues may subsequently be required.

14 Officers' remuneration

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

Remuneration of senior employees 2022/23

Post holder information	Salary, fees & allowances £	Expenses Allowances £	Compensation for loss of office	Non-cash benefits £	Pension contribution £	**Total £**
Chief Executive, S Ramsey*	184,692	0	0	0	18,166	**202,858**
Deputy Chief Executive and Strategic Director, Housing, Environment and Healthy Communities	146,558	0	0	0	27,807	**174,365**
Strategic Director, Resources and Digital	126,525	0	0	0	23,913	**150,438**
Strategic Director, Economy, Innovation and Growth	126,525	0	0	0	24,141	**150,666**
Strategic Director, Corporate Services and Governance	126,525	0	0	0	23,913	**150,438**
Strategic Director, Children's Social Care and Lifelong Learning~	84,364	0	0	0	15,945	**100,309**
Strategic Director, Integrated Adults and Social Care Services~	70,703	0	0	0	13,363	**84,066**
Director of Public Health	120,941	0	0	0	17,342	**138,283**
	986,833	**0**	**0**	**0**	**164,590**	**1,151,423**

*** Includes Returning Officer fees for elections**
~Part year

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Remuneration of senior employees 2021/22

Post holder information	Salary, fees & allowances £	Expenses allowances £	Compensation for loss of office	Non-cash benefits £	Pension contribution £	**Total £**
Chief Executive, S Ramsey*	190,068	0	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**
	957,051	**0**	**0**	**0**	**170,551**	**1,127,602**

*** Includes Returning Officer fees for elections**

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 2022/23 to indicate the cost impact on senior staff:

	Number of Employees			
	Incl. redundancies		Excl. redundancies	
	2021/22	2022/23	2021/22	2022/23
£50,000 - £54,999	104	141	103	141
£55,000 - £59,999	64	69	62	69
£60,000 - £64,999	25	39	23	39
£65,000 - £69,999	21	23	21	23
£70,000 - £74,999	11	13	11	13
£75,000 - £79,999	8	10	8	10
£80,000 - £84,999	6	5	6	5
£85,000 - £89,999	1	9	1	9
£90,000 - £94,999	3	0	3	0
£95,000 - £99,999	2	2	2	2
£100,000 - £104,999	9	1	9	1
£105,000 - £109,999	0	9	0	9
£110,000 - £114,999	0	0	0	0
£115,000 - £119,999	1	0	1	0
£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 2022/23 Statement of Accounts recognises a cost of £0.488m in relation to actual redundancies and other terminations in 2022/23. There were 9 compulsory redundancies (3 in 2021/22), 12 voluntary redundancies (67 in 2021/22) and 5 other terminations (12 in 2021/22). 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 2022/23 totalled £0.488m. £0.413m of this expenditure was funded from a balance sheet provision, and £0.075m was funded from the General Fund.

2021/22						2022/23				
Number				Cost		Number				Cost
CRs	VRs	Other	Total	£000s	Exit package cost band	CRs	VRs	Other	Total	£000s
3	3	10	16	136	£0 - £20,000	7	7	5	19	133
0	1	1	2	66	£20,001 - £40,000	1	2	0	3	90
0	63	1	64	3,063	£40,001 - £150,000	1	3	0	4	265
3	**67**	**12**	**82**	**3,265**	**Total**	**9**	**12**	**5**	**26**	**488**

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.

a. 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.

b. Councillors and senior officers

Elected Councillors have direct control over the Council's financial and operating policies. The total of Councillors' allowances paid in 2022/23 is shown in Note 12. During 2022/23, no works or services were commissioned from companies in which Councillors had a material 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.

Returns completed by senior officers include any directorships or board roles within related parties.

During 2022/23, no related party transactions were entered into with senior officers or their close family members.

c. 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.

Trinity Square: is a joint venture between Northumbria University and Gateshead Council providing housing for 1,000 students (see Note 24).

d. 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.

e. Pooled Budgets

The Council has a pooled budget arrangement with the Northeast and North Cumbria Integrated Care Board (ICB) to support the local integration of health and social care. This pooled budget was established under the Government's Better Care Fund. Further details are detailed in note 31.

f. 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 InfraBridge (previously known as 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 (£11.661m in 2021/22). 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 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 2022 (nil for the year ended 31 December 2021).

Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012/13, issuing £67.665m shareholder loan notes of which £13.153m is provided by the Council (£12.023m in 2021/22). 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 pandemic the Council has agreed to modify the terms of these loans and has accepted that under the unprecedented circumstances the airport can defer interest repayments for the following three years (four years in 2021/22) 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 £0.387m (£0.703m in 2021/22) 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 £0.249m (£0.171m in 2021/22) 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 profit before tax of £0.135m and a loss after tax of £2.181m for the year ended 31 December 2022. In the previous year, the Group made a loss before tax of £31.306m and a loss after tax of £32.755m.

g. Gateshead Trading Company

The Gateshead Trading Company Ltd (GTC) is a wholly owned subsidiary of the Council limited by shares. Its activities during 2022/23 included construction, design services and economic development. The company's unaudited draft turnover in 2022/23 was £0.979m (£1.778m in 2021/22). The company's unaudited draft cost of sales in 2022/23 was £1.007m (£1.805m in 2021/22). Within the unaudited draft accounts, the company made a loss of £0.089m in 2022/23 (profit of £0.653m in 2021/22). At the year end GTC owed the Council £0.184m (£0.258m in 2021/2022) and the Council owed GTC £0.202m (£0.086m in 2021/2022). During 2022/23 GTC repaid all outstanding loans due to the Council.

h. 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 unaudited draft turnover in 2022/23 was £5.278m (£3.690m in 2021/22). The company's unaudited draft cost of sales in 2022/23 was £4.760m (£3.526m in 2021/22). Within the unaudited draft accounts, the company made a loss of £0.468m in 2022/23 (loss of £0.324m in 2021/22). At the year end, GEC owed the Council £7.986m (£4.473m in 2021/2022) and the Council owed GEC £0.266m (£0.096m in 2021/2022). During 2022/23 GEC received loans of £2.500m from the Council which is repayable over 40 years.

i. 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 unaudited draft turnover in 2022/23 was £0.515m (£0.301m in 2021/22). The company's unaudited draft cost of sales in 2022/23 was £0.311m (£0.177m in 2021/22). Within the unaudited draft accounts, the company made a loss of £0.081m in 2022/23 (loss of £0.224m) in 2021/22. At the year end, RFS owed the Council £0.896m (£0.773m in 2021/2022) and the Council owed RFS £nil (£0.0063m in 2021/2022).

j. 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 Countryside Partnerships (formerly Vistry Homes), control the remaining 50%. The first sites were transferred to GRP for development from Council ownership in March 2014.

GRP continues to experience strong sales performance and growing momentum and is currently developing 343 homes on the Freight Depot and Birtley sites. Following the transfer of land by the Council to GRP in December 2022 for Birtley III, £0.105m loan notes were issued by GRP to the Council.

The financial projections of the company indicate that its overall profits in 2022/23 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 2022/23 accounts will be published by 31 December 2023.

k. 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.

l. 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.

m. 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 2023 was £15.952m (£16.322m at 31 March 2022). 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.

The following table shows the amounts outstanding from related parties as at the 31st March 2023

31/03/2022 £000s	Amounts due to the Council	31/03/2023 £000s
16,321	Keelman Homes	15,952
12,023	Newcastle International Airport Loan	13,153
4,473	Gateshead Energy Company	7,986
773	Regent Funeral Services	896
750	Gateshead Trading Company	184
96,121	Other debtors (current and non-current)	79,813
130,461		**117,984**

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).

2021/22				2022/23		
Income £000s	Expenditure £000s	(Profits) / losses £000s		Income £000s	Expenditure £000s	(Profits) / losses £000s
(3,533)	5,069	**1,536**	Building Cleaning	(3,001)	4,162	**1,161**
(331)	455	**124**	Civic Restaurants	(476)	470	**(6)**
(7,563)	7,375	**(188)**	Fleet	(7,278)	7,653	**375**
(3,448)	3,861	**413**	Maintenance	(3,507)	3,632	**125**
(6,044)	6,546	**502**	School Meals	(6,359)	7,131	**772**
(23,284)	23,548	**264**	Construction	(21,118)	22,198	**1,080**
(21,336)	22,336	**1,000**	Highways	(14,951)	15,183	**232**
(65,539)	**69,190**	**3,651**		**(56,690)**	**60,429**	**3,739**

17 Property, Plant and Equipment

a. Gross book values:

	Other land and buildings * £000s	Assets under construction ‡ £000s	Vehicles, plant and equipment ‡ £000s	Council dwellings * £000s	Community assets ‡ £000s	Surplus assets $ £000s	**Total £000s**
Cost or valuation							
Balance at 31 March 2021	**475,751**	**22,825**	**77,910**	**730,838**	**6,928**	**24,551**	**1,338,803**
Absorption of TGHC into Council Accounts	2,355	0	1,416	(1,736)	0	(1)	2,034
Reclassifications	(4,424)	(4,867)	0	1,551	0	2,309	(5,431)
Additions	4,666	36,409	3,179	19,829	261	3,652	67,996
Donations	0	0	0	0	0	0	0
Disposals	(1,056)	0	(854)	(5,931)	0	0	(7,841)
Revaluation increase/(decrease) to Revaluation Reserve	15,641	0	0	121,559	0	(3,139)	134,061
Revaluation increase/(decrease) to Comprehensive Income and Expenditure Statement	2,095	0	0	8,153	0	(13,512)	(3,264)
Impairment Charged to Revaluation Reserve	0	0	0	0	0	0	0
Impairment Charged to Comprehensive Income and Expenditure Statement	0	0	0	0	0	0	0
Balance at 31 March 2022	**495,028**	**54,367**	**81,651**	**874,263**	**7,189**	**13,860**	**1,526,358**
Reclassifications	(1,024)	0	0	149	0	1,174	299
Additions	4,914	25,321	4,509	18,604	269	404	54,021
Donations	0	0	0	0	0	0	0
Disposals	(329)	0	(1,025)	(8,202)	(147)	(471)	(10,174)
Revaluation increase/(decrease) to Revaluation Reserve	24,577	0	0	(15,447)	0	(1,228)	7,902
Revaluation increase/(decrease) to Comprehensive Income and Expenditure Statement	(4,645)	0	0	(7,607)	0	(414)	(12,666)
Impairment Charged to Revaluation Reserve	0	0	0	0	0	0	0
Impairment Charged to Comprehensive Income and Expenditure Statement	0	0	0	0	0	0	0
Balance at 31 March 2023	**518,521**	**79,688**	**85,135**	**861,760**	**7,311**	**13,325**	**1,565,740**

* at current value, other land and buildings includes PFI assets (see Note 20)
‡ at historic cost
$ at fair value

b. Accumulated depreciation and net book values:

	Other land and buildings * £000s	Assets under construction ‡ £000s	Vehicles, plant and equipment ‡ £000s	Council dwellings * £000s	Community assets ‡ £000s	Surplus assets $ £000s	**Total £000s**
Accumulated Depreciation							
Balance at 31 March 2021	**(19,150)**	**0**	**(62,325)**	**(14,908)**	**(83)**	**(191)**	**(96,657)**
Absorption of TGHC into Council Accounts	(37)	0	(1,094)	(74)	0	0	**(1,205)**
Reclassifications	61	0	0	(52)	0	(9)	**0**
Disposals	56	0	849	122	0	0	**1,027**
Depreciation written out to Revaluation Reserve on revaluation	14,442	0	0	22,056	0	0	**36,498**
Depreciation written out to Comprehensive Income and Expenditure Statement on revaluation	3,591	0	0	3,048	0	216	**6,855**
Depreciation	(19,456)	0	(5,506)	(16,436)	0	(19)	**(41,417)**
Depreciation written out to Revaluation Reserve on impairment	0	0	0	0	0	0	**0**
Depreciation written out to Comprehensive Income and Expenditure Statement on impairment	0	0	0	0	0	0	**0**
Balance at 31 March 2022	**(20,493)**	**0**	**(68,076)**	**(6,244)**	**(83)**	**(3)**	**(94,899)**
Reclassifications	220	0	0	(3)	0	(221)	(4)
Disposals	14	0	1,024	41	0	0	1,079
Depreciation written out to Revaluation Reserve on revaluation	11,841	0	0	16,916	0	86	28,843
Depreciation written out to Comprehensive Income and Expenditure Statement on revaluation	7,632	0	0	1,993	0	225	9,850
Depreciation	(20,762)	0	(5,322)	(19,010)	0	(117)	(45,211)
Depreciation written out to Revaluation Reserve on impairment	0	0	0	0	0	0	0
Depreciation written out to Comprehensive Income and Expenditure Statement on impairment	0	0	0	0	0	0	0
Balance at 31 March 2023	**(21,548)**	**0**	**(72,374)**	**(6,307)**	**(83)**	**(30)**	**(100,342)**

	Other land and buildings * £000s	Assets under construction ‡ £000s	Vehicles, plant and equipment ‡ £000s	Council dwellings * £000s	Community assets ‡ £000s	Surplus assets $ £000s	**Total £000s**
Net Book Value at 31/03/2022	**474,535**	**54,367**	**13,575**	**868,019**	**7,106**	**13,857**	**1,431,459**
Net Book Value at 31/03/2023	**496,973**	**79,688**	**12,761**	**855,453**	**7,228**	**13,295**	**1,465,398**

c. Infrastructure Assets

In accordance with the temporary relief offered by the Update to the Code on infrastructure assets Note 17 does not include the disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The Council has not chosen to disclose this information as the previous reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions related to infrastructure assets.

The Council has determined in accordance with Regulation 30M of the Local Authorities (Capital Finance and Accounting) (England/Wales) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

Infrastructure Assets	**31/03/2022 £000s**	**31/03/2023 £000s**
Netbook value at 31 March	160,521	173,992
Additions	19,214	15,285
Derecognition	0	0
Depreciation	(8,432)	(10,673)
Impairment	0	0
Other movements in cost	2,689	0
Netbook value at 31 March	**173,992**	**178,604**

	31/03/2022 £000s	**31/03/2023 £000s**
Infrastructure assets	173,992	178,604
Other Plant, Property and Equipment	1,431,459	1,465,398
Total Plant, Property and Equipment	**1,605,451**	**1,644,002**

d. Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment is revalued with enough regularity to ensure the carrying amount does not differ materially from the value at the end of the reporting period. All valuations, except for specialist assets, were carried out by JLL.

Valuations of Land and Buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on depreciated historical cost as a proxy for non-property assets that have short useful lives.

The significant assumptions applied in estimating the values are:

- Depreciated Replacement Cost (DRC) method has been used where the asset is used by the Council to deliver services, but the property is of a specialist nature in that there is little or no market evidence to support value;
- Existing Use Value has been used where the asset is used by the Council to deliver services but is not specialised and there is market evidence to support value;
- Existing Use Value – Social Housing has been used to measure the value of Council Dwellings
- The condition and state of repair of the assets is acceptable for the purpose for which they are used.
- The Council has good title to each asset with no adverse or restrictive covenants which could affect the use or the asset;
- The assets are fit for the purpose for which they are used and will continue to remain so physically, complying with fire, health and safety or any other statutory regulation.
- The current use will continue for the foreseeable future and the use will remain viable.

- The existing use has planning permission.
- The assets are not affected by any ground conditions / stability or contamination which would materially prejudice the valuation.
- The assets are free from contamination and deleterious or hazardous substances.
- No allowance has been made for taxation, acquisition, realisation or disposal costs or other expenses.
- the assets provided by PFI contracts will be effectively maintained by the contractor up to the end of the contract with each being fit for purpose; and
- The transaction takes place in the principal market, or in the absence of the principal market, the most advantageous market for the asset is used for assets valued at fair value.

Changes in Estimates

- During previous valuations, non-council tenanted garages were valued separated to council tenanted garage assuming that the non-council tenanted garage income was not a required part of Housing income. In 2022/23 JLL, the Council's valuing experts, determined based on new information from the Housing service that all garages should be valued together. The impact of this change in estimate for 2022/23 was £5.03m
- The Regional Performance Centre, part of Sports Centres was previously valued on an income rental approach to ascertain a fair value. JLL, determined that a Depreciated Replacement Cost (DRC) approach was more appropriate due to the specialised nature of the site. The impact of this change in estimate for 2022/23 was £10.89m

Valuations are summarised in the table below:

	Other Land and Buildings £000s	Assets Under Construction £000s	Vehicles, Plant and Equipment £000s	Council Dwellings £000s	Community Assets £000s	Surplus Assets £000s	**Total Valuation £000s**
Carried at Historical Cost	0	79,688	85,135	0	6,489	0	**171,312**
Valued at Current Value as at:							
Assets valued 1 Dec 2022	257,144	0	0	861,760	0	13,325	**1,132,229**
Assets valued 1 Dec 2021	169,307	0	0	0	0	0	**169,307**
Assets valued 1 April 2020	92,070	0	0	0	822	0	**92,892**
Total Cost or Valuation	**518,521**	**79,688**	**85,135**	**861,760**	**7,311**	**13,325**	**1,565,740**

e. Non-operational Property, Plant and Equipment (Surplus Assets)

There has been no change in the valuation techniques used during the year for valuing Surplus Assets. The fair value of the Council's surplus assets are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years.

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. All valuations are carried out by the Council's valuation experts, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

Market conditions are such that similar properties are actively purchased and sold and therefore there is a significant level of observable inputs allowing the Council to categorise these properties as Level 2 in the fair value hierarchy. The fair value for the surplus assets (at market rents) has been based on the market approach using current market conditions, recent sales prices and other relevant information for similar assets in the local authority area. The income approach has also been used, where appropriate, which capitalises the potential income of the asset.

Highest and Best Use of Surplus Assets – In estimating the fair value of the Council's surplus assets, the highest and best use of the properties is for residential or commercial use. The assets have become surplus to requirement and will become part of the Council's disposals programme or used to further regeneration projects within the Borough.

Surplus property Fair value using:	Level 1 £000s	Level 2 £000s	Level 3 £000s	**Total** **£000s**
Residential Land	0	13,295	0	**13,295**
Offices	0	0	0	**0**
Total 2022/23	**0**	**13,295**	**0**	**13,295**

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 2021/22	**0**	**13,860**	**0**	**13,860**

18 Heritage assets

The Council has identified £28.7m heritage assets, held to increase the knowledge, understanding of the Council's history and local area. These have been split into the following categories:

- **Civic regalia:** the collection includes a number of artefacts such as the Mayoral chains, the Mace and various items of silverware.
- **Museum collections:** the museum collections include paintings (both oil and watercolour), sculptures and other artefacts and are managed by Tyne and Wear Archives and Museum on behalf of the Council. The collection includes two paintings by Hans Schäufelein on display at the Shipley Art Gallery[7]; 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.

The table below provides a reconciliation of the carrying value of heritage assets held by the Council:

	Public artwork £000s	Civic regalia £000s	Buildings £000s	Museum collections £000s	**Total £000s**
Cost or Valuation					
Balance at 31 March 2021	**11,539**	**379**	**1,150**	**14,641**	**27,709**
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**
Balance at 31 March 2022	**12,459**	**379**	**1,000**	**14,737**	**28,575**
Additions	0	0	0	0	**0**
Donations	0	12	0	0	**12**
Disposals	0	0	0	0	**0**
Revaluations	121	0	0	20	**141**
Balance at 31 March 2023	**12,580**	**391**	**1,000**	**14,757**	**28,728**

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

19 Capital commitments and capital financing redemption of debt

At 31 March 2023 the Council had £5.1m of contractual commitments for the construction or enhancement of property, plant and equipment (£22m in 2021/22). These relate to the following schemes:

- Investment in Sister Winifred Laver Promoting Independence Centre £4.8m
- Investment in Baltic Quarter Enabling Infrastructure £0.2m
- Investment in Gateshead Quays Multi Storey Car Park £0.1m

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):

2021/22 £000s		2022/23 £000s
762,995	**Opening Capital Financing Requirement**	**784,116**
	Capital investment	
85,912	Property, plant, and equipment	68,999
0	Heritage assets	0
0	Investment properties	0
420	Intangible assets	2,033
0	Assets held for sale	0
6,313	Revenue expenditure funded from capital under statute	3,530
4,550	Long-term debtors relating to capital transactions	2,500
0	Acquisition of PFI assets	307
	Sources of finance	
(3,077)	Capital receipts	(966)
(49,167)	Government grants and other contributions	(32,794)
	Sums set aside from revenue:	
(1,563)	Direct revenue contributions	(1,080)
(22,267)	MRP/loans fund principal	(16,260)
784,116	**Closing Capital Financing Requirement**	**810,385**
	Explanation of movements in year:	
(2,547)	Increase/(decrease) in underlying need to borrowing (supported by government financial assistance)	(2,547)
26,839	Increase in underlying need to borrowing (unsupported by government financial assistance)	31,755
(3,171)	Assets acquired under PFI/PPP and finance lease contracts	(2,939)
21,121	**Increase/(decrease) in Capital Financing Requirement**	**26,269**

20 Public finance initiative (PFI) arrangements

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

31/03/22 £000s Schools	31/03/22 £000s Waste		31/03/23 £000s Schools	31/03/23 £000s Waste
29,651	**44,811**	**Opening values**	**28,237**	**48,134**
2	0	Additions	307	0
0	0	Transfers	0	0
0	0	Disposals	0	0
(1,743)	(1,747)	Downward revaluations	(1,393)	(64)
967	7,400	Upward revaluations	4,759	735
(640)	(2,330)	Depreciation	(730)	(2,643)
28,237	**48,134**	**Closing values**	**31,180**	**46,162**

b. Analysis of movements in PFI liabilities

The following transactions were processed during 2022/23:

2021/22 £000s Schools	2021/22 £000s Waste		2022/23 £000s Schools	2022/23 £000s Waste
1,398	5,431	Services	1,210	4,142
0	959	Lifecycle	0	1,354
1,028	2,143	Capital repayment	1,096	1,843
1,337	729	Interest	1,269	685
998	421	Contingent rent	1,229	375
4,761	**9,683**	**Total payment**	**4,804**	**8,399**
(2,981)	(1,805)	PFI grant receivable (excluding academy schools)	(2,981)	(1,805)
0	0	Grant attributable to academy / diocesan schools	0	0
1,780	**7,878**	**Net payment**	**1,823**	**6,594**

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:

31/03/22 £000s Schools	31/03/22 £000s Waste		31/03/23 £000s Schools	31/03/23 £000s Waste
(20,196)	**(35,411)**	**Opening values**	**(19,169)**	**(33,268)**
0	0	Additions	0	0
1,027	2,143	Repayment of capital	1,096	1,843
(19,169)	**(33,268)**	**Closing values**	**(18,073)**	**(31,425)**

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	Waste	Schools	Waste	Schools	Waste	
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
within 1 year	1,168	1,824	1,197	647	2,483	6,072	**13,391**
between 1 and 5 years	5,499	6,870	3,961	2,219	10,390	26,332	**55,271**
between 5 and 10 years	9,188	9,813	2,637	1,940	14,110	35,823	**73,511**
between 10 and 15 years	2,218	10,158	147	933	751	41,003	**55,210**
between 15 and 20 years	0	2,760	0	57	0	8,176	**10,993**
between 20 and 25 years	0	0	0	0	0	0	**0**
	18,073	**31,425**	**7,942**	**5,796**	**27,734**	**117,406**	**208,376**

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

The balance of cash and cash equivalents is made up of the following elements:

31/03/22 £000s		31/03/23 £000s
27	Cash held	61
(11,363)	Bank overdraft	(3,265)
28,101	Current deposits	6,917
16,765	**Total cash and cash equivalents**	**3,713**

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:

31/03/2022 £000s			31/03/2023 £000s	
< 1 year	> 1 year		< 1 year	> 1 year
24,100	0	Central government bodies	5,574	0
12,210	0	NHS bodies	13,347	0
10,261	0	Other local authorities	9,923	0
0	0	Other public bodies	0	0
52,077	31,813	Other Entities and Individuals	54,294	34,846
98,648	**31,813**		**83,138**	**34,846**

The debtors' balance represents the amount due to the Council from customers or grants outstanding from funding bodies. An impairment allowance of £15.820m is held within the *Other Entities and Individuals* category above to provide against the risk of default on debt outstanding from trade, or non-government, debtors (2021/22: £14.270m).

The impairment allowance in relation to council tax and non-domestic 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 2023 was estimated as £2.957m (2021/22: £2.757m) whilst the impairment allowance in relation to non-domestic rates was estimated as £2.336m (2021/22: £1.997m). These represent the Council's share of the provision for uncollectable 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:

31/03/2022 £000s		31/03/2023 £000s
1,939	Less than three months	1,569
1,827	Three to six months	2,089
4,136	Six months to one year	5,445
14,580	More than one year	16,011
22,482		**25,114**

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

Less than one year
Miscellaneous Debtors £17.2m (£17.1m 2021/22)
Council Tax arrears (after uncollectable debt provision) £17.3m (£15.4m 2021/22)
HRA Arrears £11.3m (£10.0m 2021/22)
Non-domestic rates arrears (after uncollectable debt provision) £2.4m (£2.3m 2021/22)

Greater than one year
Loan to Keelman Homes Ltd £15.6m (£16.0m 2021/22)
Long term loan note with Newcastle Airport £12.9m (£12.0m 2021/22)
Loan to Gateshead Energy Company £5.5m (£3.0m 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:

31/03/2022 £000s			31/03/2023 £000s	
< 1 year	> 1 year		< 1 year	> 1 year
(75,373)	0	Central government bodies	(12,308)	0
(1,301)	0	NHS bodies	(2,692)	0
(6,695)	0	Other local authorities	(7,434)	0
0	0	Other public bodies	0	0
(50,367)	(51,955)	Other Entities and Individuals	(41,390)	(49,154)
(133,736)	**(51,955)**		**(63,164)**	**(49,154)**

24 Provisions

Movements in provisions during 2022/23 were as follows:

Balance 31/03/2022 £000s		Credit	Debit	New provision	Reversals	Balance 31/03/2023 £000s
(2,472)	**Non-domestic rate appeals**: provision for refunds following successful appeals	0	1,856	(3,374)	0	(3,990)
(2,966)	**Redundancies**: Provision for costs associated with known redundancies	0	413	0	1,080	(1,473)
(2,340)	**Term Time Only**: provision for the backdating of pay for term-time only employees	0	0	0	0	(2,340)
(892)	**Trinity Square**	0	0	0	147	(745)
(8,670)	**Current provisions**	**0**	**2,269**	**(3,374)**	**1,227**	**(8,548)**
(171)	**Airport Expected Credit Loss**: in the event all repayments are not made at some time in the future	0	0	0	171	0
0		0	0	0	0	0
(9,197)	**Insurance**: provision for costs associated with insurance claims against the Council	(3,973)	1,160	0	3,396	(8,614)
(9,368)	**Non-current provisions**	**(3,973)**	**1,160**	**0**	**3,567**	**(8,614)**
(18,038)	**Total provisions**	**(3,973)**	**3,429**	**(3,374)**	**4,794**	**(17,162)**

Closing provisions include the following elements:

Non-domestic rates Appeals: Due to the localisation of non-domestic rates, which became effective from 1 April 2013, the Council has set aside a provision for any potential liabilities as a result of Non-domestic 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, its 2021/22 deficit was £1.504m (£0.752m Council), this is a direct result of the impact of Covid 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 2022/23 academic year.

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

Term Time Only: Recent case law (The Harper Trust v Brazel) concluded that all part year workers should have their holiday pay calculated based on their average earnings over the previous 52 working weeks and receive the statutory minimum annual leave entitlement in accordance with the Working Time Regulations 1998. The Supreme Court upheld this judgement on 20th July 2022. A provision has been created to meet the estimated cost following The Harper Trust v Brazel case.

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.

25 Employee Benefits

a. Defined contribution plan: Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers Pension Scheme (TPA), administered by Teachers' Pensions on Department for Education. The scheme provides teachers with specified benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the DfE uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 3,700 participating employers and consequently the Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this statement of accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2022/23, the Council paid £7.991m to the TPA in respect of teachers' retirement benefits, the rate of pensionable pay was to 23.6% (plus a 0.08% levy) (2021/22 £8.422m 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 2022/23, these amounted to £3.541m, representing 8.29% of pensionable pay (£3.531m and 6.1% in 2021/22). 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

As part of the terms and conditions of employment of its officers, the authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement. The authority participates in two post-employment schemes:

- The Local Government Pension Scheme, administered locally by South Tyneside Council – this is a funded defined benefit final salary scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

The Tyne and Wear pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of South Tyneside Council. Policy is determined in accordance with the Pensions Fund Regulations.

The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and HRA the amounts required by statute as described in the accounting policies note.

In 2022/23, the Council paid £25.626m (£25.120m in 2021/22) to the Pension Fund in respect of pension contributions, representing 18.7% of pensionable pay (18.9% in 2021/22) and early retirement strain on the fund payments.

The scheme is accrued in accordance with the requirements of International Accounting Standard 19 *Employee Benefits*[8] (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.

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

c. Transactions relating to retirement benefits

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

Charges to the Comprehensive Income & Expenditure Statement (CIES)

	Funded liabilities		Unfunded liabilities	
	2021/22 £000s	**2022/23 £000s**	**2021/22 £000s**	**2022/23 £000s**
CIES:				
Cost of Services:				
Current service cost	64,380	60,940	0	0
Past service cost (including curtailments)	1,540	460	0	0
(Gain)/loss from settlements	5,970	0	0	0
Financing and Investment Income and Expenditure:				
Net interest expense	12,700	10,860	1,870	2,140
Total post-employment benefits charged to the surplus or deficit on the provision of services	**84,590**	**72,260**	**1,870**	**2,140**
Other post-employment benefits charged to the Comprehensive Income and Expenditure Statement:				
Re-measurement of net defined benefit liability:				
Return on plan assets (excluding the amount included in the net interest expense)	(60,060)	54,610	0	0
Actuarial (gains)/losses due to:				
changes in financial assumptions	(132,730)	(724,410)	(2,360)	(15,810)
changes in demographic assumptions	(7,390)	0	(850)	(770)
liability experience	(55,690)	147,550	(2,910)	7,190
Settlement cost - Absorption of TGHC	73,660	0	0	0
Total other post-employment benefits charged to the Comprehensive Income and Expenditure Statement	**(182,210)**	**(522,250)**	**(6,120)**	**(9,390)**
Total post-employment benefits charged to the Comprehensive Income and Expenditure Statement	**(97,620)**	**(449,990)**	**(4,250)**	**(7,250)**

Movement in Reserves Charges

	Funded liabilities		Unfunded liabilities	
	31/03/2022 £000s	**31/03/2023 £000s**	**31/03/2022 £000s**	**31/03/2023 £000s**
Movement in Reserves Statement				
Reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the Code	58,990	47,238	(3,530)	(3,568)
Actual amount charged against the General Fund balance for pensions in the year				
Employer contributions payable to the scheme	25,450	25,200		
Retirement benefits payable to pensioners			5,500	5,510

d. Pension assets and liabilities recognised in the balance sheet

The liabilities show the underlying commitment that the Council has to pay retirement benefits. 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:

	31/03/2022 £000s	31/03/2023 £000s
Funded:		
Fair value of Fund assets	1,550,590	1,517,270
Present value of the defined benefit obligation	(1,965,280)	(1,456,700)
	(414,690)	**60,570**
Unfunded:		
Present value of the defined benefit obligation	(82,080)	(69,370)
Asset / (liability) recognised on Balance Sheet	**(496,770)**	**(8,800)**

The table below shows the reconciliation of the movement in the fair value of the fund assets

	Funded liabilities		Unfunded liabilities	
	31/03/2022 £000s	31/03/2023 £000s	31/03/2022 £000s	31/03/2023 £000s
Opening fair value of Fund assets	**1,337,720**	**1,550,590**	**0**	**0**
Interest income on assets	30,810	41,600	0	0
Re-measurement gains and (losses) on assets	60,060	(54,610)	0	0
Employer contributions	25,610	25,270	5,390	5,460
Employee contributions	8,190	8,420	0	0
Net benefits paid out	(49,420)	(54,000)	(5,390)	(5,460)
Net increase in assets from disposals/acquisitions	0.00	0	0	0
Settlements	137,620	0	0	0
Closing fair value of Fund assets	**1,550,590**	**1,517,270**	**0**	**0**

The table below shows the reconciliation of the present value of fund liabilities (defined benefit obligation)

	Funded liabilities		Unfunded liabilities	
	31/03/2022 £000s	31/03/2023 £000s	31/03/2022 £000s	31/03/2023 £000s
Opening defined benefit obligation at 1 April	**1,875,640**	**1,965,280**	**91,720**	**82,080**
Current service cost	64,380	60,940	0	0
Interest cost	43,510	52,460	1,870	2,140
Contributions from Fund participants (employees)	8,190	8,420	0	0
Re-measurement (gains) and losses:				
- Actuarial (gains)/losses on liabilities:				
financial assumptions	(132,730)	(724,410)	(2,360)	(15,810)
demographic assumptions	(7,390)	0	(850)	(770)
experience	(55,690)	147,550	(2,910)	7,190
Net benefits paid out	(49,420)	(54,000)	(5,390)	(5,460)
Past service cost (including curtailments)	1,540	460	0	0
Settlements (liabilities extinguished)	217,250	0	0	0
Closing defined benefit obligation at 31 March	**1,965,280**	**1,456,700**	**82,080**	**69,370**

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

	31/03/22	31/03/23		
	Total	Quoted	Unquoted	Total
Equity investments	57.0%	40.1%	11.1%	51.2%
Property	8.4%	0.0%	10.5%	10.5%
Government bonds	2.0%	1.3%	0.0%	1.3%
Corporate bonds	18.8%	19.5%	0.0%	19.5%
Cash	1.8%	1.8%	0.0%	1.8%
Multi Asset Credit	0.0%	4.5%	0.0%	4.5%
Other assets	12.0%	0.0%	11.2%	11.2%
	100.0%	**67.2%**	**32.8%**	**100.0%**

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

	2021/22 £000	2022/23 £000
Interest income on assets	30,810	41,600
Re-measurement gain / (loss) on assets	60,060	(54,610)
Actual return on assets	**90,870**	**(13,010)**

e. 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 2024 are estimated to be £23.94m. In addition, strain on the fund contributions may be required. It is also expected that the Council will pay £6.01m directly to beneficiaries (unfunded).

The weighted average duration of the defined benefit obligation is 16.6 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 37%
- Deferred members 11%
- Pensioners and dependents 52%

f. 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 2023 (unfunded benefits: 31 March 2023), 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 1.0% is used before 2030 and 0.1% after 2030. This compares to an assumption of 0.9% before 2030 and 0.1% 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 2022 Valuation.

The principal assumptions used by the actuaries have been:

	Funded Liabilities		Unfunded Liabilities	
	2021/22	2022/23	2021/22	2022/23
Financial assumptions (% per annum)				
Discount rate for Fund liabilities	2.7%	4.7%	2.7%	4.7%
Rate of inflation - RPI	N/A	N/A	N/A	N/A
Rate of inflation - CPI	3.0%	2.7%	3.0%	2.7%
Pension increases	3.0%	2.7%	3.0%	2.7%
Pension account revaluation rate	3.0%	2.7%	N/A	N/A
Rate of general increase in salaries	4.5%	4.2%	N/A	N/A
Mortality assumptions (years)				
Longevity at 65 for current pensioners:				
Men	21.5	21.6	21.8	21.6
Women	24.5	24.6	25.0	24.6
Longevity at 65 for future pensioners:				
Men	22.8	22.9	N/A	N/A
Women	26.0	26.1	N/A	N/A

Commutation

The mortality assumptions are based on actual mortality experience of members within the Fund based on analysis carried out as part of the 2022 Acturial Valuation, and allow for expected future mortality improvements.

g. 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 2023 and the projected service cost for the year ending 31 March 2024 is set out below:

Funded LGPS benefits	+0.1%	-0.1%
Discount rate assumption:		
Adjustment to discount rate		
Present value of total obligation (£000s)	1,433,390	1,481,460
% change in present value of total obligation	-1.6%	1.7%
Projected service cost (£000s)	27,600	29,870
Approximate % change in projected service cost	-3.9%	4.0%
Rate of general increase in salaries:		
Adjustment to salary rate increase		
Present value of total obligation (£000s)	1,459,610	1,453,790
% change in present value of total obligation	0.2%	-0.2%
Projected service cost (£000s)	28,720	28,720
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 (£000s)	1,478,550	1,436,310
% change in present value of total obligation	1.5%	-1.4%
Projected service cost (£000s)	29,870	27,600
Approximate % change in projected service cost	4.0%	-3.9%
Post retirement mortality assumption:		
Adjustment to mortality age rating assumption*		
Present value of total obligation (£000s)	1,494,570	1,418,830
% change in present value of total obligation	2.6%	-2.6%
Projected service cost (£000s)	29,700	27,740
Approximate % change in projected service cost	3.4%	-3.4%

*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.

26 Financial Instruments

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. The table below does not disclose those financial instruments that are already disclosed in other notes namely, debtors, creditors, cash and cash equivalents:

Categories of financial instruments

	Current Borrowing		Non-current Borrowing	
	31/03/2022 £000s	**31/03/2023 £000s**	**31/03/2022 £000s**	**31/03/2023 £000s**
Financial Liabilities				
Amortised Cost	(16,823)	(40,505)	(654,966)	(650,667)
Total Financial Liabilities	**(16,823)**	**(40,505)**	**(654,966)**	**(650,667)**

	Current Investments		Non-current Investments	
	31/03/2022 £000s	**31/03/2023 £000s**	**31/03/2022**	**31/03/2023**
Financial Assets				
Amortised cost	144,218	72,968	0	0
Fair value through other Comprehensive Income and Expenditure: unquoted equity investments	0	0	12,445	12,445
Total Financial Assets	**144,218**	**72,968**	**12,445**	**12,445**

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

Newcastle Airport
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 2022.

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.

b. 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:

	2021/22		2022/23	
	Surplus or Deficit on the Provision of Services	Other Comprehensive Income and Expenditure	Surplus or Deficit on the Provision of Services	Other Comprehensive Income and Expenditure
Net gains/(losses) on:	£000s	£000s	£000s	£000s
Financial assets measured at fair value through profit or loss	0	0	0	0
Financial assets measured at amortised costs	(14)	0	(12)	0
Investments in equity instruments designated at fair value though other comprehensive income	0	(3,251)	0	0
Total net gains/(losses)	**(14)**	**(3,251)**	**(12)**	**0**
Interest Revenue:				
Financial assets measured at amortised costs	(2,172)	0	(4,552)	0
Total Interest Revenue	**(2,172)**	**0**	**(4,552)**	**0**
Interest expense	23,274	0	23,789	0
Total	**21,088**	**(3,251)**	**19,225**	**0**

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

Except for the financial assets carried at fair value, 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 lower than the carrying amount because the Council's loans portfolio includes a number of fixed rate loans where the interest rate payable is lower than rates available for similar loans in the market at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2023) arising from a commitment to pay interest to lenders below current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £540.194m 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 reduction in interest that the Council would notionally 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.

	31/03/2022		31/03/2023	
	Carrying amount £000s	Fair value £000s	Carrying amount £000s	Fair value £000s
Public Works Loans Board debt (interest payable 1.69%-11.50%)	(623,268)	(739,471)	(642,648)	(540,194)
Other loan instruments (interest rate payable 3.60%-4.52%)	(48,521)	(71,765)	(48,521)	(45,278)
Total financial liabilities	**(671,789)**	**(811,236)**	**(691,169)**	**(585,472)**
Market loans < 1 year	116,118	115,997	66,051	66,051
Market loans > 1 year	0	0	0	0
Total financial assets	**116,118**	**115,997**	**66,051**	**66,051**

d. The Financial Instruments Revaluation Reserve

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.

	31/03/2022 £000s	31/03/2023 £000s
Balance at 1 April	**8,943**	**12,446**
Upward revaluation of investments	3,503	-
Balance at 31 March	**12,446**	**12,446**

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 31/03/2023				
Fixed-term deposits	65,000	0	1,051	66,051
	65,000	**0**	**1,051**	**66,051**
Current deposits (cash equivalents)	6,904	0	13	6,917
Total	**71,904**	**0**	**1,064**	**72,968**
Current investments 31/03/2022				
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**

27 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 22 March 2022 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2022/23 was set at £895m. This is the maximum limit of external borrowing or other non-current liabilities.
- The Operational Boundary was expected to be £880m. 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[9], 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

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

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 recoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2023 that this was likely to crystalise.

As at 31 March 2023, £37m, or 51.5%, of the Council's deposits (31 March 2022: £56m or 38.80%) were held with financial institutions domiciled outside the UK:

	31/03/2022		31/03/2023	
	Amount	%	Amount	%
Country of Domicile	**£000s**		**£000s**	
Singapore	11,000	7.6	12,000	16.7
Canada	15,000	10.4	15,000	20.9
Germany	15,000	10.4	0	0.0
Australia	15,000	10.4	10,000	13.9
	56,000	**38.8**	**37,000**	**51.5**

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:

31/03/2022		31/03/2023		
Net value £000s		**Gross value £000s**	**Impairment value £000s**	**Net value £000s**
144,093	Deposits with financial institutions	71,904	0	71,904
31,813	Non-current debtors	34,846	0	34,846
73,397	Current debtors	67,254	(10,528)	56,726

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:

31/03/2022 £000s	Rating	31/03/2023 £000s
38,093	AAA	1,904
0	AA	5,000
26,000	AA-	27,000
65,000	A+	33,000
15,000	A	0
0	A-	5,000
144,093	**Total (excluding impaired investments)**	**71,904**

Amounts arising from Expected Credit Losses

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

For Newcastle Airport Loan Notes the major curtailments in the airport's operations has resulted in a cumulative modification loss of £0.387m (£0.703 in 2021/22) 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 £0.249m (£0.171m in 2021/22) 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 financial assets falls below the Council's materiality threshold and for this reason has not been included in the accounts.

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[10], 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 2023, all of the Council's deposits were due to mature within 364 days.

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

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

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

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

Below is an analysis of the maturing structure of Council debt

Total outstanding at 31 March 2022 £000s		Total outstanding at 31 March 2023 £000s
	An analysis of loan by maturity is:	
(16,823)	**Current borrowing**	**(40,505)**
(24,299)	Maturing in 1 – 2 years	(4,766)
(43,159)	Maturing in 2 – 5 years	(58,393)
(70,196)	Maturing in 5 – 10 years	(70,196)
(517,312)	Maturing in more than 10 years	(517,312)
(654,966)	**Non-current borrowing**	**(650,667)**
(671,789)	**Total borrowing**	**(691,172)**

Market risk

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

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates - the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).
- Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowing will not impact in the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

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

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

According to this assessment strategy, at 31 March 2023, if all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

2021/22 £000s		2022/23 £000s
100	Increase in interest payable on variable rate borrowing	100
(271)	Increase in interest receivable on variable rate investments	(84)
(171)	**Impact on the (surplus)/deficit on the Provision of Services**	**16**
(273)	Decrease in fair value of fixed rate investment assets	257
139,307	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)	75,898

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 £12.445m in 2022/23 (£12.445m in 2021/22) 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 £0.622m 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.

28 Cashflow Statement Notes

a. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2021/22 £000s		2022/23 £000s
23,319	Interest paid	26,858
0	Interest received	(3,142)
0	Dividends received	0
23,319		**23,716**

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2021/22 £000s		2022/23 £000s
(49,849)	Depreciation	(55,883)
3,301	Impairment and Revaluation (losses) or gains of property, plant, and equipment	(2,818)
(1,121)	Amortisation	(1,123)
(58,078)	(Increase) / Decrease in creditors	65,228
(9,772)	Increase / (Decrease) in debtors	(11,595)
1,780	Increase / (Decrease) in inventories	(729)
924	(Increase)/decrease in impairment allowance	0
(55,460)	Movement in pension liability	(43,670)
(7,063)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(9,295)
(1,671)	Other non-cash items charged to the net (surplus) or deficit on the provision of services	2,015
(177,009)		**(57,870)**

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2021/22 £000s		2022/23 £000s
0	Proceeds from current and non-current investments	0
29,910	Capital grants credited to (surplus)/deficit on provision of services	17,439
6,958	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	7,303
(703)	Any other items for which the cash effects are investing or financing activities	(4)
36,165		**24,738**

b. Cash Flow Statement – Investing Activities

The cash flows for investing activities include the following:

2021/22 £000s		2022/23 £000s
83,070	Purchase of property, plant and equipment, investment property and intangible assets	78,954
382,500	Purchase of current and non-current investments	260,000
0	Other payments for investing activities	7,019
(6,958)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(7,303)
(341,402)	Proceeds from the sale of current and non-current investments	(310,897)
0	Other receipts from investing activities	(22,529)
117,210	**Net cash flows from Investing Activities**	**5,244**

c. Cash Flow Statement – Financing Activities

The cash flows for financing activities include the following:

2021/22 £000s		2022/23 £000s
(40,000)	Cash receipts of current and non-current borrowing	(20,000)
(32,028)	Other receipts from financing activities	0
3,171	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on Balance Sheet PFI contracts	2,939
32,612	Repayments of current and non-current borrowings	1,106
0	Other payments for financing activities	0
(36,245)	**Net cash flows from Financing Activities**	**(15,955)**

29 Reconciliation of liabilities arising from financing cashflows

01/04/2022 £000s		Financing cash flows	Acquisition non cash changes	Other non-cash changes	31/03/2023 £000s
(654,966)	Non-current borrowing	(20,000)	0	24,299	(650,667)
(16,823)	Current borrowing	1,106	0	(24,788)	(40,505)
0	Lease liabilities	0	0	0	0
(52,437)	On balance sheet PFI liabilities	2,939	0	0	(49,498)
(724,226)		**(15,955)**	**0**	**(489)**	**(740,670)**

01/04/2021 £000s		Financing cash flows	Acquisition non cash changes	Other non-cash changes	31/03/2022 £000s
(620,072)	Non-current borrowing	(30,000)	1,106	(6,000)	(654,966)
(44,375)	Current borrowing	22,612	(1,106)	6,046	(16,823)
0	Lease liabilities	0	0	0	0
(55,607)	On balance sheet PFI liabilities	3,170	0	0	(52,437)
(720,054)		**(4,218)**	**0**	**46**	**(724,226)**

30 Contingent Liabilities

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 2023. The Council has estimated the potential liability from similar claims to be £2m to be met from the Housing Revenue Account.

31 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 NHS minimum contribution
- Improved Better Care Fund (iBCF)
- Disabled Facilities Grant (DFG)

Whilst the DFG remained at the same level as in 2021/22, the iBCF increased by 3% and the NHS minimum contribution requirement increased by 5.66%.

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 NHS minimum contribution (for Gateshead, this represents an uplift of 5.66%).
(iii) Agreement to invest in NHS commissioned out-of-hospital services.
(iv) Implement the BCF policy objectives of:
    a. Enable people to stay well, safe, and independent at home for longer.
    b. Provide the right care, in the right place, at the right time.

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

In September 2022, the Department of Health and Social Care announced additional funding to support discharges from hospital into social care. In November 2022, this was followed by details of how this funding should be used to support local authorities to deliver timely and safe discharges from hospital into the community by reducing the number of people delayed in hospital awaiting social care and reducing the number of bed days lost to delayed discharges.

Funds were notified to flow both via local authorities and Integrated Care Board's to be included in the section 75 Agreements for the Better Care Fund in 2022/23. In Gateshead, this provided a total of £1.936m additional funding.

On 1 July 2022, the previous Clinical Commissioning Groups (CCG) were replaced by Integrated Care Boards (ICB).

2021/22 £000s		2022/23 £000s
	Expenditure	
18,013	Gateshead Council - Revenue	20,715
2,111	Gateshead Council – Capital	2,111
10,752	NewcastleGateshead CCG/ Northeast and North Cumbria ICB	11,324
30,876		**34,150**

2021/22 £000s		2022/23 £000s
	Contributions to the Pool	
17,713	Minimum NHS Contribution	18,716
0	Gateshead Council Hospital Discharge	944
0	Northeast and North Cumbria ICB Hospital Discharge	992
2,111	Disabled Facilities Grant	2,111
11,052	Improved Better Care Fund Grant	11,387
30,876		**34,150**

32 Prior Period Adjustments / Restatements

In accordance with the Council's accounting policies, a number of disclosures relating to 2021/22 have been restated following the separation of the Childrens, Adults and Families group into two new directorates.

There have been no prior period adjustments but following amendments to the Council's management reporting structure in April 2022, comparative data has been restated for 2021/22 to facilitate comparison with 2022/23.

The table below shows the impact of the changes between the directorate areas as presented in the Comprehensive Income and Expenditure Statement.

	Net Expenditure 2021/22 £000	Changes	Restated position 2021/22 £000
Children, Adults and Families	107,773	-107,773	0
Children's, Social Care and Lifelong Learning	0	55,593	55,593
Integrated Adults and Social Care Services	0	52,180	52,180
	107,773	**0**	**107,773**

33. Authorisation of Accounts for issue

The Council's Statement of Accounts for the financial year ended 31 March 2023 will be approved, once audited, by the Accounts Committee and authorised for issue.

Signed:

Date: 31/05/2023

Darren Collins
Strategic Director, Resources and Digital & Borough Treasurer

Signed:

Date: 31/05/2023

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

Housing Revenue Account (HRA)

HRA Income and Expenditure Statement

2021/22 £000s		2022/23 £000s	Note
	Expenditure:		
24,844	Repairs and maintenance	28,941	
24,112	Supervision and management	24,439	
3,946	Special services	4,234	
4,031	Rents, rates, taxes and other charges	3,705	
5,540	Depreciation, impairment and revaluation losses of non-current assets	24,855	4 & 6
97	Debt management charges	86	
675	Increase or (decrease) in provision for uncollectable debts	771	
63,245		**87,031**	
	Income:		
(72,985)	Dwelling rents (gross)	(75,162)	
(1,307)	Non-dwelling rents (gross)	(1,222)	
(4,303)	Charges for services and facilities	(3,895)	
(482)	Leaseholders charges for services and facilities	(358)	
(2,196)	Contributions towards expenditure	(2,070)	
0	HRA subsidy receivable	0	
(81,273)		**(82,707)**	
(18,028)	**Net Cost of HRA Services as included in the Council's Comprehensive Income and Expenditure Statement**	**4,324**	
295	HRA services' share of Corporate and Democratic Core	295	
(17,733)	**Net (Income)/Expenditure for HRA Services**	**4,619**	
	HRA share of the operating income and expenditure included in the Council's Comprehensive Income and Expenditure Statement:		
(676)	(Gain) or loss on sale of HRA non-current assets	1,261	
11,973	Interest payable and similar charges	12,071	
(9)	Interest and investment income	(120)	
1,888	Net interest on the net defined benefit liability	1,696	
(1,508)	Capital grants and contributions	(1,047)	
(6,065)	**(Surplus)/Deficit for the year on HRA services**	**18,480**	

Movement on the HRA Statement

31/03/2022 £000s		31/03/2023 £000s	Note
30,786	**Balance on the HRA at 1 April**	**26,160**	
6,065	Surplus / (Deficit) for the year on HRA Income and Expenditure Statement	(18,480)	
(10,691)	Adjustments between accounting basis and funding basis under regulations	11,881	1
(4,626)	Net increase or (decrease) before transfers to reserves	**(6,599)**	
0	Transfers (to) or from earmarked reserves	0	
(4,626)	**Increase or (decrease) in year on the HRA**	**(6,599)**	
26,160	**Balance on the HRA at 31 March**	**19,561**	

Notes to the HRA

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

2021/22 £000s		2022/23 £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:	
11,132	Revaluation of non-current assets	(5,591)
1,508	Capital grants and contributions	1,047
423	Accumulated Absences Account adjustment	0
676	Gain/ (loss) on sale of HRA non-current assets	(1,261)
(6,980)	HRA share of contributions to or from the pensions reserve	(6,076)
0	Revenue expenditure funded from capital under statute (REFCUS)	0
4,512	Capital expenditure funded by the HRA	0
(16,663)	Transfer to the Major Repairs Reserve (see Note 7)	(19,264)
16,663	Transfer from the capital adjustment account	19,264
(580)	Other	0
10,691		**(11,881)**
	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
10,691	**Total adjustments between accounting basis and funding basis under the legislative framework**	**(11,881)**

2. Housing stock and Balance Sheet valuation

The number of council dwellings by type and valuation at 31 March 2023 was as follows:

31/03/2022	Lettable stock numbers:	31/03/2023
10,725	Houses	10,597
4,850	Flats	4,588
3,091	Bungalows	3,092
18,666		**18,277**
£000s	**Values:**	**£000s**
868,019	Council dwellings	855,453
3,888	Other land and buildings	4,046
254	Vehicle, plant, furniture and equipment	232
5,191	Assets under construction	7,125
877,352	**Total Balance Sheet value of land, houses and other property in the HRA**	**866,856**

It should be noted that opening values are presented prior to any revaluations carried out during 2022/23 and taking effect from 1 April 2022.

3. Vacant possession value

The vacant possession value of the HRA dwellings at 1 December 2022 was £1.941bn (£1.976bn 1 December 2021), 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 £0.854bn (£0.874bn 1 December 2021) 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:

2021/22 £000s		2022/23 £000s
16,436	Council dwellings	19,010
137	Other land and buildings	146
90	Vehicles, plant, furniture and equipment	108
16,663	**Total**	**19,264**

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:

2021/22 £000s		2022/23 £000s
	Expenditure:	
19,829	Council dwellings	18,604
5,354	Other land and buildings	1,934
0	Vehicle, plant, furniture and equipment	86
25,183	**Total capital expenditure**	**20,624**
	Funded by:	
0	Borrowing	0
(2,500)	Capital Receipts Reserve	(560)
(1,508)	Capital grants	(800)
(4,512)	Direct revenue financing	0
(16,663)	Major Repairs Reserve	(19,264)
(25,183)	**Total funding**	**(20,624)**

6. Revaluations

The Council values its dwellings every year using the EUV-SH basis. During the financial year, the valuation process resulted in a debit to the HRA of £5.591m relating to valuation losses (2021/22: a credit of £11.132m).

2021/22 £000s		2022/23 £000s
	Revaluation losses/(reversal of previous losses) recognised in the HRA Income and Expenditure Statement:	
(11,132)	Council dwellings	5,591
0	Other land and buildings	0
	Impairments recognised in the HRA Income and Expenditure Statement:	
0	Council dwellings	0
0	Other land and buildings	0
(11,132)	**Total**	**5,591**

7. Major Repairs Reserve

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

31/03/2022 £000s		31/03/2023 £000s
0	**Opening Balance at 1 April**	**0**
(16,663)	Amounts transferred to MRR during the year:	(19,264)
0	Amounts transferred from the MRR during the year	0
16,663	Capital expenditure on land, houses & other property	19,264
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*:

2021/22 £000s		2022/23 £000s
	Credit:	
(9)	Interest on notional cash balance	(120)
11,132	Revaluation/impairment of non-current assets	5,591
11,123		**5,471**
	Debit:	
11,973	Interest on loans	12,071
16,663	Depreciation	19,254
0	Amortisation	10
97	Debt management expenses	86
0	Premiums for early repayment of debt	0
(11,132)	Revaluation/Impairment of non-current assets	(5,591)
17,601		**25,830**
28,724	**Total item 8 debit**	**31,301**

9. Provision for Uncollectable Debts

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

31/03/2022 £000s		31/03/2023 £000s
4,793	**Opening Provision for Uncollectable Debts at 1 April**	**4,775**
(693)	Uncollectable debts written off in year	(449)
675	Additional contributions to uncollectable debt provision in year	771
4,775	**Provision for Uncollectable Debts as at 31 March**	**5,097**

10. Rent Arrears

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

31/03/2022 £000s		31/03/2023 £000s
6,555	Current Tenants	7,586
3,416	Former Tenants	3,713
9,971	**Total Arrears**	**11,299**

11. Housing Capital Receipts

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

2021/22 £000s		2022/23 £000s
6,640	Housing Capital Receipts received during the year	7,084
30	From disposals that took place after 1 April 2012 under Right to Buy	0
6,670	**Total Housing Capital Receipts**	**7,084**

Collection Fund Statement

2021/22 £000s		2022/23 £000s Non-Domestic Rates	Council tax	TOTAL
	Income			
(114,211)	Income from council tax	0	(118,640)	(118,640)
(69,913)	Income from non-domestic rates	(79,830)	0	(79,830)
0	Reconciliation adjustments	0	0	0
(184,124)	**Total income**	**(79,830)**	**(118,640)**	**(198,470)**
	Expenditure			
	Apportionment of previous year deficit/(surplus):			
(22,038)	Central Government	(12,632)	0	(12,632)
(21,925)	Gateshead Council	(12,379)	(159)	(12,538)
(456)	Tyne and Wear Fire and Rescue Authority	(253)	(7)	(260)
(25)	Northumbria Police and Crime Commissioner	0	(12)	(12)
(44,444)		**(25,264)**	**(178)**	**(25,442)**
	Precepts, demands and shares:			
41,849	Central Government	38,171	0	38,171
141,527	Gateshead Council	37,408	103,869	141,277
5,332	Tyne and Wear Fire and Rescue Authority	763	4,600	5,363
7,550	Northumbria Police and Crime Commissioner	0	8,101	8,101
1,168	Transitional protection payments payable	476	0	476
197,426		**76,818**	**116,570**	**193,388**
	Less charges to Collection Fund:			
1,606	Write-off of uncollectable amounts	153	0	153
1,272	Increase / (decrease) in impairment of debtors' allowance	1,366	1,827	3,193
0	Increase / (decrease) in provision for appeals	3,098	0	3,098
272	Cost of collection	279	0	279
3,150		**4,896**	**1,827**	**6,723**
(27,992)	**(Surplus)/deficit arising during the year**	**(23,380)**	**(421)**	**(23,801)**
46,587	**(Surplus)/deficit brought forward 1 April**	**18,317**	**277**	**18,594**
18,595	**(Surplus)/deficit carried forward 31 March**	**(5,063)**	**(144)**	**(5,207)**
	Attributable to:			
9,159	Central Government	(2,531)	0	(2,531)
9,223	Gateshead Council	(2,481)	(124)	(2,605)
194	Tyne and Wear Fire and Rescue Authority	(51)	(6)	(57)
19	Northumbria Police and Crime Commissioner	0	(14)	(14)
18,595		**(5,063)**	**(144)**	**(5,207)**

Notes to the Collection Fund Statement

1. Non-domestic rates

In 2013/14, the local government financing system was overhauled with the introduction of a new scheme whereby councils retain an element of non-domestic 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 uncollectable debts and income volatility are transferred.

The scheme allows the Council to retain 49% of net non-domestic 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).

2021/22		2022/23
51.2p	Multiplier - rate in the pound	51.2p
£216.407m	Total non-domestic rateable value	£219.498m

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	
		2021/22	2022/23	2021/22	2022/23
Band A - Up to £40,000 (disabled reductions)	5/9	146	150	81	83
Band A - Up to £40,000	6/9	34,781	35,273	23,187	23,515
Band B - £40,001 to £52,000	7/9	10,345	10,432	8,046	8,114
Band C - £52,001 to £68,000	8/9	13,629	13,673	12,114	12,154
Band D - £68,001 to £88,000	9/9	5,665	5,268	5,665	5,268
Band E - £88,001 to £120,000	11/9	2,309	2,392	2,822	2,923
Band F - £120,001 to £160,000	13/9	805	822	1,162	1,187
Band G - £160,001 to £320,000	15/9	351	358	585	597
Band H - Over £320,000	18/9	15	16	30	32
		68,046	**68,384**	**53,692**	**53,873**

	2021/22	2022/23
Council tax for a band D property	£2,144.40	£2,213.36

Part 3: Accompanying documents

Annual Governance Statement 2022/23

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 2023.

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 2023 and up to the date of approval of the Statement of Accounts 2022/23.

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 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 2022/23.

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 is combined with the Audit Committee. Employees are also subject to a Code of Conduct and a number of specific policies as set out in the Employee Handbook.

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

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

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

The Council also conducts an annual review in relation to the 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.

The governance of the Council's companies, including consideration of strategic direction, is overseen by the board of each company, which is made up of appropriately trained and qualified Council officers. The Companies have quarterly board meetings, with standing agenda items including operational and financial updates. Annual and mid-year reports are presented to Overview and Scrutiny Committee and Cabinet to ensure there is appropriate oversight of the Council companies in their capacity as shareholder. The accounts of the Companies are subject to annual external audit, and Internal Audit review all the companies' governance and control arrangements on a three-year cycle.

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.

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 7 February 2023. Assurance was sought from Councillors who served on the Cabinet during 2022/23, 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 20 June 2023 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 20 June 2023 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 20 June 2023. 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 20 June 2023. This opinion is based on 88 audit reviews undertaken during the year which found all systems reviewed to be operating well or satisfactorily, except in eight cases where significant weaknesses were identified. These weaknesses were in specific areas and as such there are no areas for improvement disclosed in this statement for 2022/23 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 20 June 2023 which concluded that risk management arrangements are effective.

The Annual Report on Counter Fraud Arrangements was presented to the Audit and Standards Committee on 20 June 2023 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. The Auditor also anticipated having no significant weaknesses to report in relation to the arrangements the Council has in place for securing economy, efficiency and effectiveness in its use of resources.

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 2022/23.

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 2022/23. 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.

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 2021/22 Annual Governance Statement

<table>
<tr><th>No.</th><th>Actions to be Taken</th><th>Links to the Local Code of Corporate Governance</th><th>Responsible Officer</th><th>Timescale</th></tr>
<tr><td>1</td><td>Further strengthen compliance with the CIPFA Financial Management Code.</td><td>Strong public financial management</td><td>Strategic Director, Resources and Digital</td><td>March 2023</td></tr>
<tr><td colspan="5">Update:
This action is complete
Action taken during the year to further strengthen compliance with the CIPFA FM Code includes development of Financial Awareness E Learning module for access via Learning Hub, face to face training on ordering process delivered, engagement with Strategic Directors to inform financial information reported into GMTs, and the last published MTFS contained more information on scenarios.</td></tr>
<tr><td>2</td><td>Implement necessary changes arising from the Revised CIPFA Good Governance Framework</td><td>To ensure the Local Code of Corporate Governance continues to comply with best practice.</td><td>Strategic Director, Corporate Services and Governance</td><td>January 2023</td></tr>
<tr><td colspan="5">Update:
This action is complete
The Local Code of Governance was reviewed to ensure it continues to comply with best practice and was presented to the Audit and Standards Committee for approval 7 February 2023.</td></tr>
<tr><td>3</td><td>Revise Strategic Risk Register to reflect risks to delivery of Strategic Health and Wellbeing outcomes</td><td>Managing Risk</td><td>Strategic Director Resources and Digital,</td><td>January 2023</td></tr>
<tr><td colspan="5">Update:
This action is ongoing.

The Council is in the process of drafting a Corporate Plan to align with Thrive and Health & Wellbeing pledges, and all Services are drafting Service Plans to setting out the medium-term plans to support effective delivery of the Corporate Plan. These documents will be discussed with Service Directors and CMT to identify corporate risks for inclusion in the Strategic Risk Register.</td></tr>
</table>

Proposed Governance Improvements required during 2023/24

As a result of the review of governance arrangements, and the work of both internal and external audit, two improvement actions have been identified to further strengthen governance arrangements in 2023/24. These are shown in the table below, along with the relevant link to the Local Code of Corporate Governance for reference:

No.	Actions to be taken	Lead Officer and Timescale
1	Brought Forward Continue work to revise the Strategic Risk Register to ensure it reflects risks to effective delivery of the Council's Corporate Plan	Strategic Director, Resource and Digital November 2023
Principle F: Managing risks and performance through robust internal control and strong public financial management, Sub Principle: Managing Risk		
2	Review the revised CIPFA Position Statement on Audit Committees in Local Authorities to assess in conjunction with the Audit and Standards Committee how best to accommodate during 2023/24.	Strategic Director, Corporate Services and Governance January 2024
Principle G: Implementing good practices in transparency, reporting and audit to deliver effective accountability Sub Principle: assurance and effective accountability.		

Opinion on Governance Arrangements

Based on the review of the Council's governance arrangements during 2022/23, including the internal control and risk management environments, the opinion is that the Council's governance arrangements continue to be regarded as fit for purpose.

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

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Standards Committee on 20 June 2023 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:

Signed:

Sheena Ramsey

Chief Executive

Dated:

Independent Auditor's Report

to the Members of Gateshead Council

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of Gateshead Metropolitan Borough Council ("the Council") for the year ended 31 March 2023, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement, the Housing Revenue Account Income and Expenditure Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets ("the Code Update"), published in November 2022.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2023 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Code Update.

Basis for opinion

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

Conclusions relating to going concern

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

Based on the work we have performed, and taking into account the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Code Update, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Other information

The Strategic Director, Resources and Digital is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Responsibilities of the Strategic Director, Resources and Digital for the financial statements

As explained more fully in the Statement of the Strategic Director, Resources and Digital’s Responsibilities, the Strategic Director, Resources and Digital is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Code Update, and for being satisfied that they give a true and fair view. The Strategic Director, Resources and Digital is also responsible for such internal control as the Strategic Director, Resources and Digital determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Strategic Director, Resources and Digital is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, as amended by the Code Update and prepare the financial statements on a going concern basis on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Strategic Director, Resources and Digital is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor’s responsibilities for the audit of the financial statements

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

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, the Accounts and Audit Regulations 2015, and the Local Government and Housing Act 1989 and we considered the extent to which non-compliance might have a material effect on the financial statements.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

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

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

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

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

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

We are also required to conclude on whether the Strategic Director, Resources and Digital’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in February 2023.

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

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

Matter on which we are required to report by exception

We are required to report to you if, in our opinion, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We have not completed our work on the Council's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in January 2023, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2023.

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

Responsibilities of the Council

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

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

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

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023.

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

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

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

We have nothing to report in these respects.

Use of the audit report

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

Delay in certification of completion of the audit

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

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

James Collins

Key Audit Partner
For and on behalf of Mazars LLP

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

Date:

Glossary of Terms

Accounting policies *see Note 1.*

Accruals: the accruals basis of accounting requires that the non-cash effects of transactions be recognised in the period that they affect, rather than when cash is paid or received. An accrual is a sum included in the final accounts to cover income or expenditure attributable to an accounting period for goods supplied and received or works done, but for which payment has not been made / received by the end of the period.

Accumulated Absences Account *see Note 6b.*

Actuarial gains and losses are changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pensions Reserve as *Other Comprehensive Income and Expenditure.*

Amortisation is the process of writing-off an intangible asset over its projected life. It is equivalent to depreciation of tangible non-current assets.

Appropriations are transfers to/from the Council's reserves from the Comprehensive Income and Expenditure Statement or the HRA. In addition, appropriations include the reconciling transactions needed to convert expenditure to amounts required from council tax.

Assets: an asset is "a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity" (IASB definition). Current assets change in value on a day-to-day basis (e.g. cash). Non-current assets yield benefit to the Council and the services it provides for a period of more than one year (e.g. land and buildings).

Available for sale assets are non-operational assets that meet the following criteria:

- They are available for immediate sale in their present condition subject to terms that are usual and customary for sales of such assets (or disposal groups);
- The sale is highly probable, with the Council committed to a plan to sell the asset;
- An active programme to locate a buyer and complete the plan has been initiated; and
- The asset (or disposal group) must be actively marketed for a sale at a price that is reasonable in relation to its current fair value. The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification and action required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

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 2023/24).

Current assets are items that can readily be converted into cash. These include items such as cash, debtors (net of uncollectable 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.

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 include the North East Combined 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[11].

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.

[11] 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 Councillors 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.

Uncollectable debts and uncollectable debt provisions: uncollectable debts are those debts which we are not able to collect, due to debtors going bankrupt or absconding; uncollectable debt provisions are funds set aside to provide for debtors failing to pay.

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:

Resources & Digital
Gateshead Council
Civic Centre
Regent Street
Gateshead
NE8 1HH

The Council's Statement of Accounts is audited by:

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

For queries / feedback, please contact either:

John Shiel, Service Director Financial Management on 0191 433 3630

David Johnson, Corporate Finance Manager on 0191 433 3598

Clare Tait, Group Accountant on 0191 433 3617

By virtue of paragraph(s) 7 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 9

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