Gateshead Council

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AUDIT AND STANDARDS COMMITTEE AGENDA

Monday, 25 July 2016 at 10.00 am in the Blaydon Room - Civic Centre

From the Chief Executive, Jane Robinson

Item	Business
1.	**Apologies for Absence**
2.	**Minutes** (Pages 3 - 8) The Committee is asked to approve, as a correct record, the minutes of the meeting held on 20 June 2016.
3.	**Declarations of Interest** Members to declare interests in any agenda items.
4.	**Audit Completion Report Year Ended 31 March 2016 and Statement of Accounts 2015/16** (Pages 9 - 122) Report of the Strategic Director Corporate Resources
5.	**Annual Report to Cabinet and Council: 2015/16** (Pages 123 - 130) Report of the Strategic Director Corporate Resources
6.	**Amendment to the Treasury Policy Statement and Treasury Strategy 2016/17 to 2018/19** (Pages 131 - 134) Report of the Strategic Director Corporate Resources
7.	**Corporate Risk Management 2016/17 Quarterly Report to 30 June 2016** (Pages 135 - 148) Report of the Strategic Director Coroporate Resources
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 items in accordance with Schedule 12A to the Local Government Act 1972.

Contact: Neil Porteous - Tel: 0191433 2149 - Email: Neilporteous@gateshead.gov.uk,
Date: Friday, 15 July 2016

EXEMPT AGENDA

9. **Internal Audit Plan 2016/17 Quarterly Monitoring Report to 30 June 2016**
(Pages 149 - 158)

Report of the Strategic Director Corporate Resources

GATESHEAD METROPOLITAN BOROUGH COUNCIL

AUDIT AND STANDARDS COMMITTEE MEETING

Monday, 20 June 2016

PRESENT: Councillor H Hughes

Councillors: M Hood, P Dillon, J Green, J McClurey,
G Clark, Common and B Jones

APOLOGIES: Councillor L Green

ASC1 **CONSTITUTION**

The constitution of the Committee and the appointment of the Chair and Vice Chair for the 2016/17 municipal year, as approved by the Council at its meeting on 20 May 2016, was noted.

It was also reported that that the Committee will include three independent members in respect of Audit matters and a representative of the Lamesley Parish Council will be invited to meetings in respect of Standards issues.

It was queried whether there is a term set for independent members to sit on the Committee, to ensure the Council's Audit matters are subject to renewed scrutiny. The need to ensure there is an appropriate turnover rate for independent members and independent persons is recognised and therefore positions are advertised, as appropriate.

RESOLVED: That the information be noted.

ASC2 **REMIT OF THE AUDIT AND STANDARDS COMMITTEE**

The role of the Committee and the powers delegated to it were reported. It was commented that the constitution will be updated to take account of recent changes so that all references are up to date.

RESOLVED: That the information be noted.

ASC3 **MINUTES**

The minutes of the last meeting held on 25 April 2016 were approved as a correct record.

ASC4 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

ASC5 **EXTERNAL AUDITOR: AUDIT PROGRESS REPORT**

The Committee received an update report on Mazars' progress in delivering the 2015/16 audit and value for money conclusion.

The 'walkthrough of the key financial systems' by Mazars was queried and subsequently clarified for the Committee.

RESOLVED: That the contents of the external auditor's report be noted.

ASC6 **OVERSIGHT OF MANAGEMENT PROCESSES 2015/16**

A report was presented detailing how the Committee exercises oversight of management processes in certain areas of governance in order to provide assurance to the external auditors.

The areas of governance under consideration, together with an explanation of how oversight is exercised by the Audit and Standards Committee was detailed in an appendix to the report.

The Committee agreed to receive the Gateshead findings of the CIPFA Counter Fraud and Corruption Tracker at a future meeting.

The Committee was pleased to note that employees are aware of the revised whistleblowing policy.

RESOLVED: That following consideration of the evidence presented, the Committee was satisfied that the level of oversight is effective.

ASC7 **MEMBERS' ASSURANCE STATEMENTS 2015/16**

The Audit and Standards Committee agreed on 1 February 2016 an assurance framework which would provide evidence for the completion of the Annual Governance Statement. Assurances from Members of Cabinet on the effectiveness of the Council's governance arrangements are fundamental within the framework.

Assurance was sought from Members who served on the Cabinet during 2015/16, in the form of a self-assessment statement, on the effectiveness they felt could be placed on the Council's corporate governance arrangements, as outlined in the Code of Corporate Governance.

Assurance statements were provided by all Members of Cabinet, excluding the Leader who signs the overall Annual Governance Statement. These statements asked Cabinet Members to consider evidence of the Council's governance arrangements against each of the six principles of governance. All Cabinet Members considered that governance arrangements are effective.

Based on the evidence identified in the assurance statements from Members of Cabinet and the arrangements for the oversight of key management processes, governance arrangements are considered to be effective.

RESOLVED - i) That the assurances provided by Members of the Cabinet and the evidence on oversight be noted.

ii) The opinion that the Council's governance arrangements are effective, was endorsed by the Committee.

ASC8 **MANAGERS' ASSURANCE STATEMENTS 2015/16**

The Accounts and Audit Regulations 2015 require Authorities to produce an Annual Governance Statement giving an assessment of governance arrangements and their effectiveness.

At its meeting on 1 February 2016, the Audit and Standards Committee agreed an assurance framework which would provide evidence for the completion of the Annual Governance Statement. Assurances from senior managers on the effectiveness of controls they have in place are fundamental within the framework.

Service Directors were asked to complete self-assessments covering the processes in place to manage their key control and governance processes. They were required to provide a statement on whether they agreed that the processes they had in place provided an effective level of assurance in 17 key areas. There was also a requirement to detail the evidence to support this assessment.

Based on the evidence arising from the self-assessments, managers agreed that necessary controls were in place, in key processes, to allow them to achieve their service objectives and therefore the objectives of the Council.

All assessments issued have been returned detailing satisfactory evidence.

Internal Audit has time in the 2016/17 audit plan to review the evidence and actions identified by managers on their assurance statements, including any actions managers have identified to enhance controls.

RESOLVED - i) That the assurances provided by senior managers be noted.

ASC9 **REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT 2015/16**

The Accounts and Audit Regulations 2015 require all authorities to conduct an annual review of the effectiveness of internal audit and for a committee of the body to consider its findings, and that this process should be part of the annual review of the effectiveness of the system of internal control, which results in the production of the Annual Governance Statement.

For the year ended 31 March 2016 the Internal Audit Service has been assessed against current Internal Audit practices and compliance with professional standards. This assessment was undertaken by external audit. The outcome of the assessment was positive and found that the Internal Audit Service is substantially compliant with the standards and that there are no areas of concern.

The assessment against the CIPFA Statement requires an evaluation of how the five principles of the statement are embedded within the Council and the Chief Internal Auditor's skills and personal experience. The self-assessment found arrangements to be compliant with the statement.

A joint working protocol is in place between Internal Audit and the Council's external auditor, Mazars. Wherever possible, the external auditor will seek to rely upon the work of Internal Audit in discharging their own responsibilities. During 2014/15 Mazars did not place specific reliance on any of Internal Audit's work but through regular monthly meetings work has been co-ordinated wherever possible and intelligence shared.

CIPFA's guidance "Audit Committees – Practical Guidance for Local Authorities (2013)" includes a checklist for measuring the effectiveness of the Council's Audit Committee. A review, based on this guidance was carried out by the Council's Internal Control Group on 18 May 2016 and it found the Audit Committee to be operating effectively, with some minor areas for action.

Performance monitoring of the work carried out by the Internal Audit Service provides further assurance that the system of Internal Audit is operating effectively and adding value to the Council as a whole.

Based on the review, the Council's System of Internal Audit is operating effectively.

RESOLVED – That the opinion that the Council's system of internal audit is operating effectively, was endorsed by the Committee.

ASC10 **CORPORATE RISK MANAGEMENT - ANNUAL REPORT 2015/16**

The Corporate Risk Management Annual Report 2015/16 was presented to the Committee.

Robust risk management arrangements are a key element of a sound system of internal control and, therefore, essential to the Council being able to demonstrate that it has good systems of Corporate Governance. It also provides evidence to inform the Annual Governance Statement which is reviewed annually and accompanies the Statement of Accounts.

The report outlined the prevailing arrangements that exist within the Council for managing risk, the impact that these have had on the Council's operations and plans for further development of risk management arrangements.

RESOLVED - i) That the Corporate Risk Management Annual Report 2015/2016 be noted.
ii) The Council's risk management arrangements were considered to be effective.

ASC11 **EXCLUSION OF THE PRESS AND PUBLIC**

RESOLVED: That the press and the public be excluded from the meeting during consideration of the remaining business in accordance with paragraph 3 of Schedule 12A to the Local Government Act 1972

ASC12 **INTERNAL AUDIT ANNUAL REPORT 2015/16**

The Committee received a report outlining all the work undertaken by the Internal Audit Service during 2015/16. The report gives an overall assessment of the adequacy of the Council's internal control systems and governance arrangements to inform the Annual Governance Statement and provides a summary of the main audit findings.

Based on the evidence arising from the planned internal audit activity during 2015/16, the Council's internal control systems and governance arrangements are considered to be effective.

For 2015/16, 70 audits were carried out and the findings were presented in the appendix to the report.

RESOLVED - i) That the information be noted.
ii) That the audit opinion set out in the report be noted.

ASC13 **RE-ADMITTANCE OF THE PRESS AND PUBLIC**

RESOLVED: That the press and the public were re-admitted to the meeting for the remaining business.

ASC14 **ANNUAL GOVERNANCE STATEMENT 2015/16**

The Council is required to produce an Annual Governance Statement, giving an assessment of governance arrangements and their effectiveness.

The Committee agreed on 1 February 2016 the assurance framework which would provide evidence for the completion of the Annual Governance Statement. Assurances were required in the following areas:

- Governance Arrangements
- Cabinet Members
- Senior Managers
- The System of Internal Audit
- Risk Management Arrangements
- Performance Management and Data Quality
- Views of the external Auditor and other external inspectorates
- The Legal and Regulatory Framework
- Financial Controls
- Partnership arrangements

It was reported to the Committee on 1 February 2016 that a group (The Internal Control Group) has been set up to continually monitor the control and governance environment and to produce the Annual Governance Statement.

The Internal Control Group, which is chaired by the Strategic Director Corporate Resources and includes representatives of the Chief Executive, Strategic Director Corporate Services and Governance, Internal Audit and Corporate Risk Management has reviewed the evidence from the sources of assurance and prepared the Annual Governance Statement for 2015/16.

Based on the evidence it has concluded that the Council's system of internal control and governance is effective.

The Annual Governance Statement therefore reflects this opinion and gives details of the evidence obtained to achieve it.

RESOLVED - i) That the Annual Governance Statement be approved to accompany the Statement of Accounts 2015/16 prior to it being passed to the Leader of the Council and Chief Executive for signature.

Copies of all reports and appendices referred to in these minutes are available online and in the minute file. Please note access restrictions apply for exempt business as defined by the Access to Information Act.

The decisions referred to in these minutes will come into force and be implemented after the expiry of 3 working days after the publication date of the minutes identified below unless the matters are 'called in'.

Publication date: DeadlinePubminutes

Chair………………………..

Agenda Item 4

Audit and Standards Committee
25 July 2016

TITLE OF REPORT: **Audit Completion Report Year Ended 31 March 2016 and Statement of Accounts 2015/16**

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

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 2015/16 by the Council's external auditor, Mazars.

Background

2 Section 9 of the Accounts and Audit Regulations 2015 requires that the Council's Statement of Accounts 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 completed for 2015/16 and the Council's external auditor, Mazars has issued its report.

4 The Audit Completion Report covers:

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

- The Council's arrangements for securing economy, efficiency and effectiveness in its use of resources including a value for money conclusion.

5 The external auditor's report is attached at Appendix 1 and the Council's Statement of Accounts is attached at Appendix 2.

6 The Statement of Accounts is being presented to Committee two months earlier than in 2014/15; this is a "dry run" in preparation for the statutory deadline for the completion of the accounts changing from 30 September to 31 July from 2017/18.

Audit Completion Report

7 Mazars' Audit Completion Report is included as Appendix 1 to this report. The key messages are as follows:

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

8 The 2015/16 Statement of Accounts, amended for any adjustments identified during the audit, is included at Appendix 2. The Statement of Accounts is materially consistent with the 2015/16 revenue and capital outturn reports considered by Cabinet on 14 June 2016. Along with minor adjustments and presentational changes, the following adjustments to the Statement, submitted for audit on 1 June 2016, have been identified through the audit process:

- **Short-term debtors / creditors:** the debtors and creditors balances were adjusted by £1.065m due to an opening balance error identified;
- **Long-term / short-term debtors:** £0.831m interest relating to a loan was incorrectly treated as long-term, rather than being split between amounts due within and beyond one year;
- **Better Care Fund grant**: the £5.808m grant was received as part of the Local Government Finance Settlement during 2015/16, and as such was treated as a general grant within the Comprehensive Income and Expenditure Statement. It was subsequently reclassified as a service-specific grant as it relates solely to Social Care, and was moved within the *Cost of Services;*
- **Trading accounts:** the surplus on the trading accounts was reduced by £1.517m, which impacted on the *financing and investment income and expenditure* line of the Comprehensive Income and Expenditure Statement;
- **Contingent rent**: the contingent rent element of the schools PFI costs were treated as part of the *children's and education services* line of the Comprehensive Income and Expenditure Statement. This was amended to form part of the *financing and investment income and expenditure* line; and
- **Disclosure amendments**: in addition to the above, the Statement of Accounts was also amended for a number of minor errors, clarifications or inconsistencies within the Notes to the Accounts.

9 None of the changes to the Statement of Accounts impact on the revenue and capital outturn positions reported to Cabinet, nor do they affect the position of any usable reserves. Management have agreed to amend the Statement of Accounts to reflect the adjustments, with the exception of a £4.035m balancing figure within the cash flow statement that was not analysed due to the minimal impact on the Statement.

10 It should be noted that, although Mazars have completed their work, they also place reliance on the work of other auditors. Despite assurances that the work by EY on the Tyne and Wear Pension Fund (TWPF) would be complete by mid-July, the information has been delayed to the end of August. This means that the audit cannot be formally be closed until this information has been received.

Recommendation

11 The Committee is requested to:

- note the contents of the external auditor's report and review and comment on the Statement of Accounts 2015/16, prior to submission to the Accounts Committee on 29 July 2016; and
- agree to receive a further update following completion of the EY work on the TWPF.

Contact name: Craig Oakes Ext 3711

Audit Completion Report

Gateshead Council – year ended 31 March 2016

July 2016

Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

The Accounts Committee
Gateshead Council
Civic Centre
Regent Street
Gateshead
NE8 1HH

July 2016

Dear Members

Audit Completion Report – Year ended 31 March 2016

We are delighted to present our Audit Completion Report for the year ended 31 March 2016. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks, was outlined in our Audit Strategy Memorandum which we presented to Audit and Standards Committee on 7 March 2016. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and areas of management judgement remain appropriate.

From the 2017/18 financial year, the deadlines for the publication of both the draft and audited accounts will come forward to 31 May and 31 July respectively. In preparation for this change, the Audit and Standards Committee agreed at its March 2016 meeting to aim to meet the new timetable for the 2015/16 accounts.

We have worked closely with officers to ensure that our work was completed in line with the new deadlines. I would like to take this opportunity to express our thanks to your officers for their assistance during the course of our audit.

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

Yours faithfully

Gareth Davies
Partner
Mazars LLP

Contents

01 Executive summary

Purpose of this document

This document has been prepared to communicate the findings of our audit for the year ended 31 March 2016 to the Accounts Committee of Gateshead Council and forms the basis for discussion at the meeting on 29 July 2016.

Our communication with you is important to:

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

Our work on the Council's accounts is designed to provide reasonable assurance that they are free from material misstatement. In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'. We consider materiality when planning and performing our work and in assessing audit results.

At the planning stage, we made a judgement about the size of misstatements which we would consider to be material and which gave a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We determined overall materiality to be £11.478 million (being 2.0% of gross revenue expenditure), with a clearly trivial threshold of £344k below which identified errors will not usually be reported. We also set lower materiality values for accounting entries we consider to be more sensitive, for example, senior officer's remuneration
We updated our materiality calculation when we received the draft accounts and set the overall level at £11.556 million (being 2.0% of gross revenue expenditure) with a clearly trivial threshold of £344k. Appendix C provides more information on our approach.

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

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

Status and audit opinion

We have substantially completed our audit of the financial statements for the year ended 31 March 2016.

At the time of preparing this report, the following matters remain outstanding:

Area outstanding	Work to be completed
Pension Fund auditor assurance	We need to consider the findings of the Pension Fund auditor (EY) when these are received. We expected to receive their audit report by the end of July however this has now been delayed until the end of August 2016
Closure procedures	We will complete our standard closure procedures, including review of the amended financial statements and consideration of post balance sheet events.

We will provide an update to you on these outstanding matters in the form of a letter to the Accounts Committee.

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

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

We also anticipate completing our work in respect of your Whole of Government Accounts submission in line with the group instructions issued by the National Audit Office by the deadline of 21 October 2016.

Our proposed audit report is as set out in Appendix B.

02 Significant findings

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

- Our audit conclusions regarding the significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum.
- Our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 6 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year.
- Any significant difficulties we experienced during the audit.

Significant risks

Management override of controls

Description of the risk

In all entities, management at various levels is in a unique position to perpetrate fraud because of the 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

Our testing strategy included:

- reviewing material accounting estimates, which may be subject to management bias, included in the financial statements;
- consideration and reviewing of unusual or significant transactions outside the normal course of business; and
- testing of journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Revenue recognition

Description of the risk

There is a risk of fraud in the financial reporting relating to revenue recognition due to the potential to inappropriately record revenue in the wrong period. We consider revenue recognition to be a significant risk.

How we addressed this risk

We addressed this risk by performing the following audit work:

- testing cash receipts in the months of March, April and May 2016 to ensure they have been recognised in the right year;
- testing adjustment journals; and
- obtaining counterparty confirmation for major grant income.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Pension Estimates (IAS 19)

Description of the risk

The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and uses estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.

How we addressed this risk

We discussed with management the significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we:

- evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary; and
- considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned by the National Audit Office.

Audit conclusion

We are awaiting the findings of the relevant work being carried out on the Tyne & Wear Pension Fund by its external auditor. We will update this conclusion when we have received and reviewed those findings.

Property, plant and equipment

Description of the area of management judgement

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

How we addressed this area of management judgement

We:

- examined the professional qualifications of your valuer;
- challenged and substantiated the assumptions and the appropriateness of the date of the valuation used by your valuer in completing the valuations;
- ensured that valuations and impairments had been completed on the correct basis for each item and that movements were in line with expectation; and
- assessed whether the report produced by the valuer had been correctly reflected in the accounts.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Accounting policies and disclosures

We have reviewed Gateshead Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting 2015/16.

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.

Electors' rights to inspect the accounts

The Accounts and Audit (England) Regulations 2015 ('the regulations'), introduced new requirements in respect of publishing the financial statements and the period within which local electors may raise questions on the financial statements or make an objection to an item of account. For 2015/16 the Authority set this period as between 13 June 2016 to 22 July 2016. We received no questions or objections within this period.

03 Internal control recommendations

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

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

Our findings and recommendations are set out below.

We have not identified any significant deficiencies as a result of our work this year.

A small number of minor control issues have been reported to Management.

Follow up of previous internal control points

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

IT audit review

As part of the audit for the year ended 31 March 2016 the objective of our IT audit work was to provide an assessment on the design, implementation and operating effectiveness of the key IT general controls over applications supporting the Council's financial statements.

The IT general controls work covered security, change management, and IT operations for the key systems materially relevant to the financial statements.

We concluded that reliance can be placed on the IT general controls operating over the systems reviewed. No significant issues were identified that could have an impact on the financial statements.

However we made the following recommendations:

- reviewing the disaster recovery plan, data classification and secondary site location in order to mitigate the risk of data loss. This issue was previously raised as part of our 2014/15 audit work, however management have yet to fully implement this recommendation;
- ensuring data restoration is tested at least once every year to mitigate the risk of data loss; and
- ensuring the user access management process is documented for all leavers in order to mitigate the risk of unauthorised access to the Council's network, programs and data.

The findings and recommendations have been agreed with officers and action plans are being produced in order to address the identified control issues.

04 Summary of misstatements

We set out in the table below the misstatements identified during the course of the audit, all of which have been adjusted by management during the course of the audit.

Adjusted misstatements 2015/16

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Short term debtors - bodies external to government			**831**	
	Long term debtors - bodies external to government				**831**
	We identified 2 issues in relation this misstatement – • Accrued interest on the airport long term debtor should have been classified as short term as it is due to be paid in the next 12 months (£664k). • 2016/17 repayments on Keelman loans (£167k) should have been classified as short term as they are due to be paid in the next 12 months.				
2	CIES- Revenue grants, non specific grants, other grants	**5,808**			
	CIES- Revenue grants specific grants – Adult Social Care Income		**5,808**		
	Amount currently credited to non specific grants. It should be shown against Adult Social Care as a specific grant.				
3	Short term creditors - bodies external to government			**1,065**	
	Short term debtors - bodies external to government				**1,065**
	Gateshead Council manages the ledgers of three other legal entities. Testing identified that the Inter Client closing position included an overstatement of £1,065k to both debtors and creditors in relation to the North East Purchasing Organisation.				
4	Cash			**94**	
	Short term creditors - bodies external to government				**94**
	Accrued income was posted in error to bank instead of short term creditors. Officers adjusted general ledger however this happened after the draft accounts were produced. Difference trivial £94k, but potentially sensitive area.				
5	CIES - Children' and education services		**961**		
	CIES - Financing and Investment Income & Expenditure	**961**			
	Contingent rent amount of £961k was incorrectly included in the CIES as part of Net Cost of Services however the Council's accounting policy in Note 20 states that contingent rent is debited to Financing and Investment Income & Expenditure in the CIES.				

6	CIES - Central Services to the public		**990**		
	Taxation & Non specific Grant Income	**990**			
	The figure in the draft accounts was from the revenue monitoring outturn summary, however the figure should have been from the ledger.				
7	CIES - Central Services to the public		**1,517**		
	Financing and investment income & expenditure	**1,517**			
	Error in relation to the double counting of IAS19 transactions for trading activities.				
8	CIES - Central Services to the public	**161**			
	Taxation & Non specific Grant Income		**161**		
	The HRA Interest receivable figure was not included in Note 7 of the draft accounts.				

We have not identified any actual errors (rather than extrapolated), above the level of trivial that affect the primary statements. We have identified one trivial matter that when extrapolated based on the value of our sample would be non-trivial, but not material and as such we are satisfied that there is not a risk of material misstatement.

Disclosure amendments

The main disclosure issues identified during the course of the audit are outlined below

We identified one issue in relation to the Cashflow Statement that management has not amended. Audit work has identified that a balancing figure of £4,035k is included in the 'Other non-cash movement' figure of £9,367k. Officers have carried out additional work but have been unable to resolve this issue.

Other main disclosure issues we have identified during the course of the audit are listed below. All of these have been amended by management.

- Provisions (Note 24) - One error noted in the disclosure note relating to Business Rate Appeals: The figure included in the Provision was £3,011k, which was 100% of the Appeals figure. The provision should have been only £1,475k, being the 49% of Appeals that would be attributable to the Council.
- Officers Remuneration (Note 14) – Errors were identified in relation to the banding of staff earning over £50k (with and without redundancy). In addition, an error of £33k was identified in relation to the Pension Strain on the Fund charge for one exit package.
- Segmental Analysis (Note 8) – A number of issues were identified including non-compliance with the Code of Practice, for example, we were unable to reconcile the table in the Note to the Cost of Services in the Comprehensive Income and Expenditure Statement.
- Related Party transactions (Note15) - No disclosure was included in the draft Accounts for Gateshead Trading Company (GTC)
- Government and non-government grants (Note 10) - A number of non-trivial items were misclassified in the Note.
- We identified a number of other minor errors, omissions, clarifications and typographical errors.

05 Value for money

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

We follow the guidance to auditors set out in the NAO’s Auditor Guidance Note 3 (AGN03) which identifies the following overall criterion against which we evaluate the Council’s VFM arrangements:

‘In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.’

AGN03 also sets out three sub-criteria and provides examples of proper arrangements under each of these. Although we are not required to reach a separate judgement against each of the sub-criteria, we have used them to structure our consideration of the Council’s arrangements. The three sub-criteria are set out below.

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

As part of our work, we also:

- reviewed the annual governance statement;
- reviewed the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities; and
- carried out risk-based work we determined appropriate.

In the Audit Strategy Memorandum we identified a significant risk relevant to the VFM conclusion. We detail below how we have addressed this risk and our conclusions. We kept our risk assessment under review throughout the audit up to the date of this report and have not identified any additional significant risks to the VFM conclusion.

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

Significant Value for Money risk

VFM risk
Description of the risk The Council continues to face financial pressures from reduced funding, increased demand and changing responsibilities. The Council is responding to the challenges by a programme of efficiencies, service reviews and developing new ways to manage demand and deliver services. The risk is that the measures taken by the Council are not effective, leading to a lack of financial resilience
How we addressed this risk We reviewed: • monitoring and action plans for a sample of savings included in the 2015/16 budget; • the Medium-Term Financial Strategy (MTFS); • budget monitoring reports and other finance updates; • the progress made in identifying further savings required in 2016/17 and 2017/18; and • the progress of the Council’s Change (formerly Transformation) Programme.

We detail below our findings. In addition we also set out our findings in relation to the VFM significant risk that we identified above.

Informed decision-making

The Council has a clear governance structure which is regularly reviewed and where necessary adjusted to remain fit for purpose. A formal constitution is in place setting out the scheme of delegation for decisions which was last updated in July 2016 and is available on the Council's website.

A Council Plan is in place for the period 2015 to 2020 setting out how the Council will play its part in realising the Vision 2030 which is Gateshead's Sustainable Community Strategy, produced with a wide range of partners and others with a stake in the area. The Council's Annual Governance Statement for 2015/16 provides a clear summary of the governance and management arrangements in place to ensure informed decision-making and explains how assurance on the effectiveness of these arrangements in the year has been provided to the Audit and Standards Committee.

We have no findings to report on the adequacy of the Council's arrangements to support informed decision-making.

Sustainable resource deployment

The 2015/16 budget was approved by the Council in February 2015. The budget was balanced without the use of any reserves therefore preserving reserve levels for subsequent years. The budget required the Council to identify savings of £19.1 million during the year (see below for the results of our work on these savings).

The final 2015/16 Revenue outturn, which was reported in June 2016, was an underspend of £771,000. This extends the Council's track record of delivering increasingly challenging revenue outturns within the agreed budgets. The Council ended 2015/16 with general reserves of £16.3m, up from £15.6m the year before. It also had £36.7m of earmarked general fund reserves (including £3.0m in a budget flexibility reserve), up from £35.3m and £1.9m respectively the year before. The level of general fund balances is approved annually by Cabinet and Council as part of the MTFS review.

A Capital Strategy is in place which reflects the Council's priorities. All capital schemes are appraised and prioritised to ensure they reflect the key investment requirements in the strategy. The capital programme is included as part of the MTFS.

The Council believes that it will only be able to maintain its good performance in achieving financial balance despite further reductions in central government funding if it secures a fundamental transformation in what it does and how it does it. The Change Programme is therefore a critical element in the Council's arrangements for securing sustainable resource deployment in the coming years. We comment on the Change Programme in the significant risk section below.

Working with partners and other third parties

The Council is involved in a number of significant partnerships, including:

- The Better Care Fund (BCF). The Health and Wellbeing Board has oversight of the BCF which is managed through a joint board to ensure effective working between the parties. There has been a Pooled Budget Partnership in place since April 2015. Its role is to oversee the Section 75 pooled budget and to receive performance and progress updates.
- South Tyne and Wear Waste Management Partnership - This partnership was established to procure a service for the treatment and disposal of residual municipal waste. In April 2011, the partnership, led by Gateshead Council, signed a £727m PFI contract with a consortium led by SITA UK. 2014/15 was the first year of trading.
- Gateshead Regeneration Partnership - On 27 March 2012, the Council formally appointed Evolution Gateshead as partner in a joint venture vehicle to be known as the Gateshead Regeneration Partnership

(GRP) as part of the Council's Housing Market Renewal and Growth Strategy. Construction has commenced on the first tranche of sites at Bensham and Saltwell, Avon Street and Birtley.

The Council's risk register includes a strand on partnership working due to the importance of this area. We have no findings to report on the Council's arrangements for managing its partnerships.

Specific work on VFM significant risk

Achievement of 2015/16 savings

As highlighted above, the Council identified required savings of £19.1 million as part of the 2015/16 budget setting process.

The amounts identified in the 2015/16 savings plans were deducted from the base budget allocations. If any service identified that it could not meet any of the savings identified then it was required to make alternative savings from other budgets within the service.

The Council monitored the savings plans using a risk assessment methodology and separate general ledger codes which allowed officers to keep track of delivery as part of the Council's monthly budget monitoring process. The latest position and any residual actions are escalated through the Strategy Group.

Overall at the end of 2015/16, the savings achieved were £16.8m which is a shortfall of £2.3m, meaning that 88% of the planned savings were achieved. Services made other savings to result in overall delivery of a £771,000 underspend.

We selected a sample of the 2015/16 savings plans and assessed delivery against the target level of savings. In the majority of cases the plans achieved the savings required however in one case we identified a scheme that did not deliver the saving required due to a delay in the implementation of new arrangements. In this case, the delay was reported to the Strategy Group and alternative arrangements were made in-year to ensure that the service met its overall budget target.

Arrangements for achievement of 2016/17 savings target

The 2016/17 budget was presented to Council on 25 February 2016. The base budget was £198.9m and included a savings requirement of £18.8m. The budget was balanced without recourse to the General Reserve thus preserving reserve levels for subsequent years. However a total of £4.4m from reserves was earmarked to assist in service transformation and ensure Council priorities can be delivered whilst bringing down the cost of service delivery.

A summary of the budgeted 2016/17 savings is outlined below, split between each of the Council themes:

Budget Saving Proposals Theme Summary	Budget Saving 2016/17 £'000
Environment	(1,620)
Economic Growth	(832)
Communities & Volunteers	(643)
Adult Services	(9,192)
Governance & Resources	(2,382)
Public Health	(1,445)
Children and Young People	(2,682)
TOTAL	**(18,796)**

Each of the above theme summaries are made up of a number of detailed savings plans and we selected a sample to test in detail. We challenged management as to whether the savings were realisable in 2016/17.

The same detailed monitoring arrangements for the savings plans remain in place for 2016/17. Based on our review of the arrangements in place and management's responses to our challenge on the deliverability of a sample of savings plans, we have no recommendations to make in this area.

2017/18 savings target

The process of working with Directorates to identify savings for the 2017-18 savings, currently identified in the MTFS, as £22.146m, has begun. This process will be managed through the Change Programme Board which meets weekly.

When a list of savings has been identified, due by Autumn 2016, it will then be challenged by both officers and members before being subject to a public consultation exercise which is due to begin in November 2016. A detailed savings plan will be produced and challenged as part of the 2017-18 budget process.

Review of the 2017-2022 Medium Term Financial Strategy (MTFS)

We reviewed the Council's latest MTFS, which was presented to Cabinet on 12 July 2016, and considered the robustness of budget estimates and significant assumptions made.
The MTFS is based on a financial forecast over a rolling 5 year timeframe from 2017/18 to 2021/22 and is designed to help ensure resources are aligned to the outcomes in the Council Plan 2015-2020. The MTFS sets the financial context for the Council's resource allocation process and budget setting.

Over the 5 year period the Council faces a funding gap that is currently estimated at £92.3m. The size of this shortfall represents a significant challenge to the Council's effective financial planning and medium term financial sustainability.

The total savings required over a 5 year period is split as follows

- 2017-18 - £22.1m
- 2018-19 - £35.8m
- 2019-20 - £13.9m
- 2020-21 - £8.3m, and
- 2021-22 - £12.1m.

The Council has considered the assumptions relating to government funding over this period where possible and calculated its funding gap on this basis. There is a high level of uncertainty in some of the assumptions made. In particular, the Council will need to keep under review any impact of the recent EU referendum result and change of Prime Minister, Chancellor and other ministers on national policy on local government funding and devolution. On devolution, the Council's current position is that it will not take part in the Mayoral Combined Authority proposed for the North East. The MTFS will need to be updated once the impact on the Council's funding assumptions of these developments becomes clearer.

Recommendation

The Council should update its Medium Term Financial Strategy as information becomes available on any financial impact of the recent EU referendum result, changes in government policy and the Council's final decision on participation in the Mayoral Combined Authority for the North East.

Progress of the Council's Change Programme

On 9 February 2016, the Cabinet agreed to a major programme of change to guide budget decisions and the shape of the Council in the future.

The Change Programme (formerly Transformation Programme) is intended to deliver the fundamental changes required in the way the Council provides its services and works with partners in order to meet its aspirations with reduced funding. It is therefore of critical importance to both the Council's financial sustainability and its ability to achieve the desired outcomes set out in the Council Plan.

The Council has introduced 4 key workstreams to deliver the Change Programme. These are –

- People
- Place
- Trading
- Ways of working.

The workstreams, which are led by senior council officers, cover 30 projects designed to look at all aspects of the Council's business.

The Change Programme Board oversees delivery of the programme and comprises members of the Senior Leadership Team. In addition, Cabinet receive Quarterly Progress reports, the latest report being presented on 12 July 2016. The latest progress reports show that the Programme is at an early stage and will require sustained management focus to meet its objectives.

Recommendation
The Council should maintain close oversight of the progress being made by the Change Programme.

Appendix A – Draft management representation letter

Gateshead Council - audit for year ended 31 March 2016

This representation letter is provided in connection with your audit of the statement of accounts for Gateshead Council (‘the Council) for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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

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

My responsibility to provide and disclose relevant information
I have provided you with:

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

I confirm as Strategic Director, Corporate Services 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 the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

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

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

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

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

There are no contingent gains which should be disclosed.

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

Laws and regulations

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

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, Corporate Services for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

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

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

Related party transactions

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

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

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below 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 2015/16 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 CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure have been adjusted or disclosed.

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

Going concern

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

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements as included in the auditor's draft Audit Completion Report are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

Yours sincerely

Darren Collins
Strategic Director, Corporate Services

Date……………………….

Appendix B – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GATESHEAD COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Gateshead Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of Gateshead Council in accordance with Part 5 of the Local Audit and Accountability Act 2014, and paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of the Gateshead Council, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer 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 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Gateshead Council as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

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

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 24, schedule 7 of the Local Audit and Accountability Act 2014;

- we make a recommendation under section 24, schedule 7 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

We are required under section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office, requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the National Audit Office.

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

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

We are required to conclude whether the Authority has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office, we are satisfied that, in all significant respects, Gateshead Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Gareth Davies

For and on behalf of Mazars LLP

The Rivergreen Centre

Aykley Heads

Durham

DH1 5TS

July 2016

Appendix C - Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assumed that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We considered materiality whilst planning and performing our audit.

Whilst planning, we made judgements about the size of misstatements which we considered to be material and which provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

In 2015/16 we set materiality at the planning stage at £11.478 million (2 per cent of gross revenue expenditure) with a clearly trivial threshold of £344k below which identified errors will not usually be reported. We set lower materiality levels for the accounting entries we consider to be more sensitive, for example, senior officer's remuneration, as we considered these items to be of specific interest to users of the accounts sufficient to warrant audit procedures which would not otherwise be applied based on the materiality level for the audit as a whole. The materiality determined at the planning stage did not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, would be considered as immaterial.

We revised materiality for the financial statements as our audit progressed. Our closing assessment of materiality in 2015/16, based upon the final version of the financial statements, was £11.556 million with a clearly trivial threshold of £346k below which identified errors were not reported.

We discussed with management any significant misstatements or anomalies that we identified during the course of the audit and we reported in our Audit Completion Report all unadjusted misstatements we identified other than those which were clearly trivial, and obtained written representation that explained why these remain unadjusted.

Appendix D – Independence

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

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

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Appendix 2

Statement of Accounts

2015/16

Gateshead Council

AUDITED

Gateshead Council

Contents Page

Part 1: Narrative Statement and Statement of Responsibilities

Narrative Statement

Executive Summary

This Council, along with other local authorities, has faced unprecedented reductions in Government funding since the Comprehensive Spending Review 2010. In addition, increasing demand for services, particularly from the most vulnerable, has meant the Council has had to make significant budget savings every year.

The Government's approach to "continue the work of bringing the public finances under control and reducing the deficit, so Britain lives within its means" is likely to lead to further significant financial reductions over the medium term. The likely continuing requirement and scale of budget savings, coming on top of the £128m already taken from budgets since 2010, presents an increasing challenge for the Council.

The Council has responded to the financial challenges in a systematic and planned way through an approach based around four inter-related areas: economic growth, managing demand, collective responsibility and efficiencies. The Council has a strong track record of identifying and delivering savings and efficiencies whilst protecting priority services as much as possible, and it will continue to have to make very difficult choices in the years ahead concerning which services to prioritise. In order to avoid cuts to services, the Council continues to explore alternative options of service delivery to ensure that services remain fit for purpose in the context of smaller budgets. This may mean revisiting the expectations of residents in order to protect services for the most vulnerable. It is also an opportunity to work with partners and neighbouring authorities to maintain and improve outcomes whilst minimising public spending.

The Council's medium term financial plan (MTFS) covers the five year period 2017/18 to 2021/22. Future pressures have been considered and the Council will consider a four-year approach to internal budget planning beginning in the current financial year 2016/17 that will be driven by the strategic outcomes contained within the Council Plan.

Introduction

The purpose of the Narrative Statement (previously the Explanatory Foreword) 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 cashflow, and information on its financial needs and resources. It now includes a new section on economy, efficiency and effectiveness.

The Statement of Accounts which follows presents the Council's financial performance for 2015/16, its overall financial position at the end of that period and the cost of services it provides. The Statement has been prepared in accordance with the IFRS[1]-based Code of Practice on Local Authority Accounting in the United Kingdom (the Code), developed by the CIPFA[2]/LASAAC[3] Board and approved by FRAB[4]. The Code constitutes proper accounting practice[5].

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

1 International Financial Reporting Standards
2 The Chartered Institute of Public Finance and Accountancy
3 CIPFA's Local Authority (Scotland) Accounts Advisory Committee
4 Financial Reporting Advisory Board, an independent board within HM Treasury
5 Under the terms of the Accounts and Audit Regulations 2015 & the Local Government and Housing Act 1989

Financial Performance

The Council classifies its expenditure and income as:

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

or

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

The following sections discuss the Council's revenue and capital income and expenditure during 2015/16.

Revenue Income and Expenditure Summary

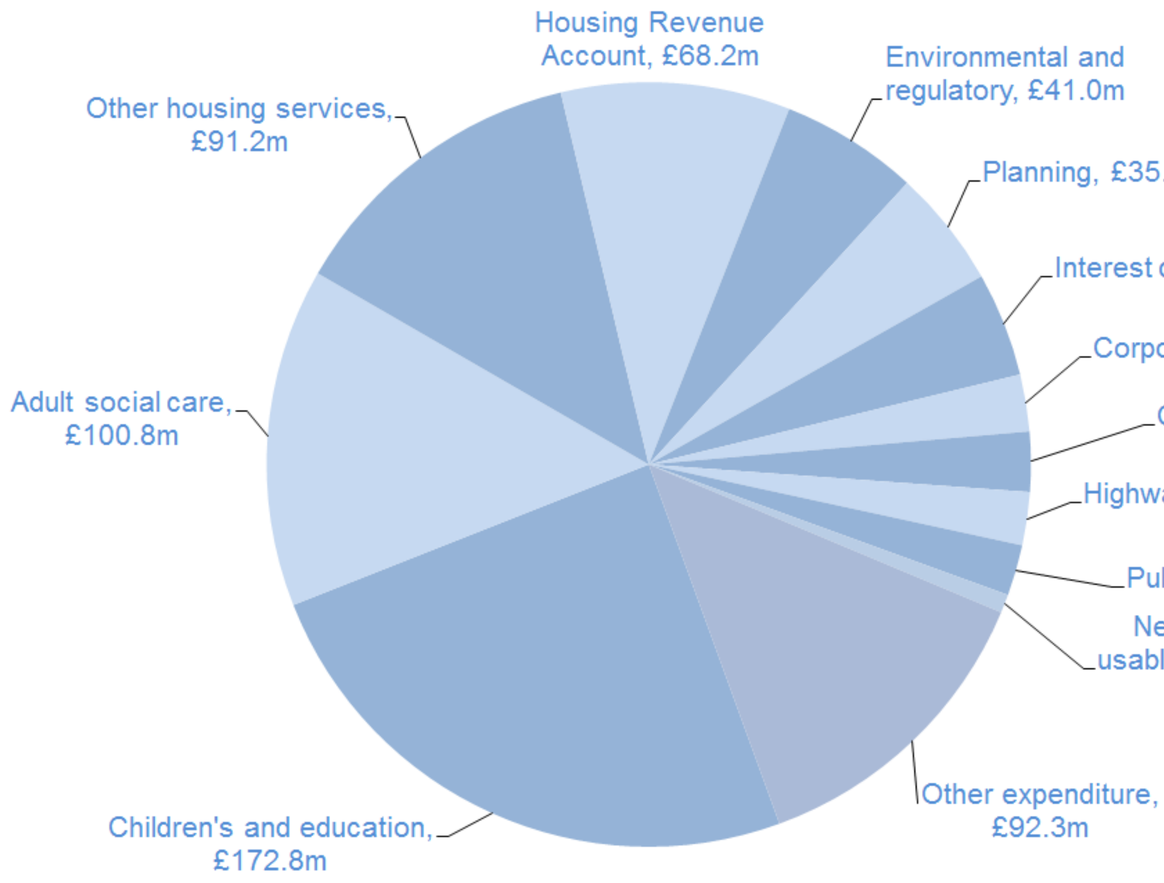
This section offers a summary of the income and expenditure presented within the Movement in Reserves Statement (page 14), the Comprehensive Income and Expenditure Statement (page 16) and the Housing Revenue Account (HRA) statement (page 63). The information reconciles to the net movement in the General Fund and HRA reserves, presented here in a consolidated form for illustrative purposes.

The following table presents a summary of the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement, and provides information on movements on the Council's key reserves in 2015/16:

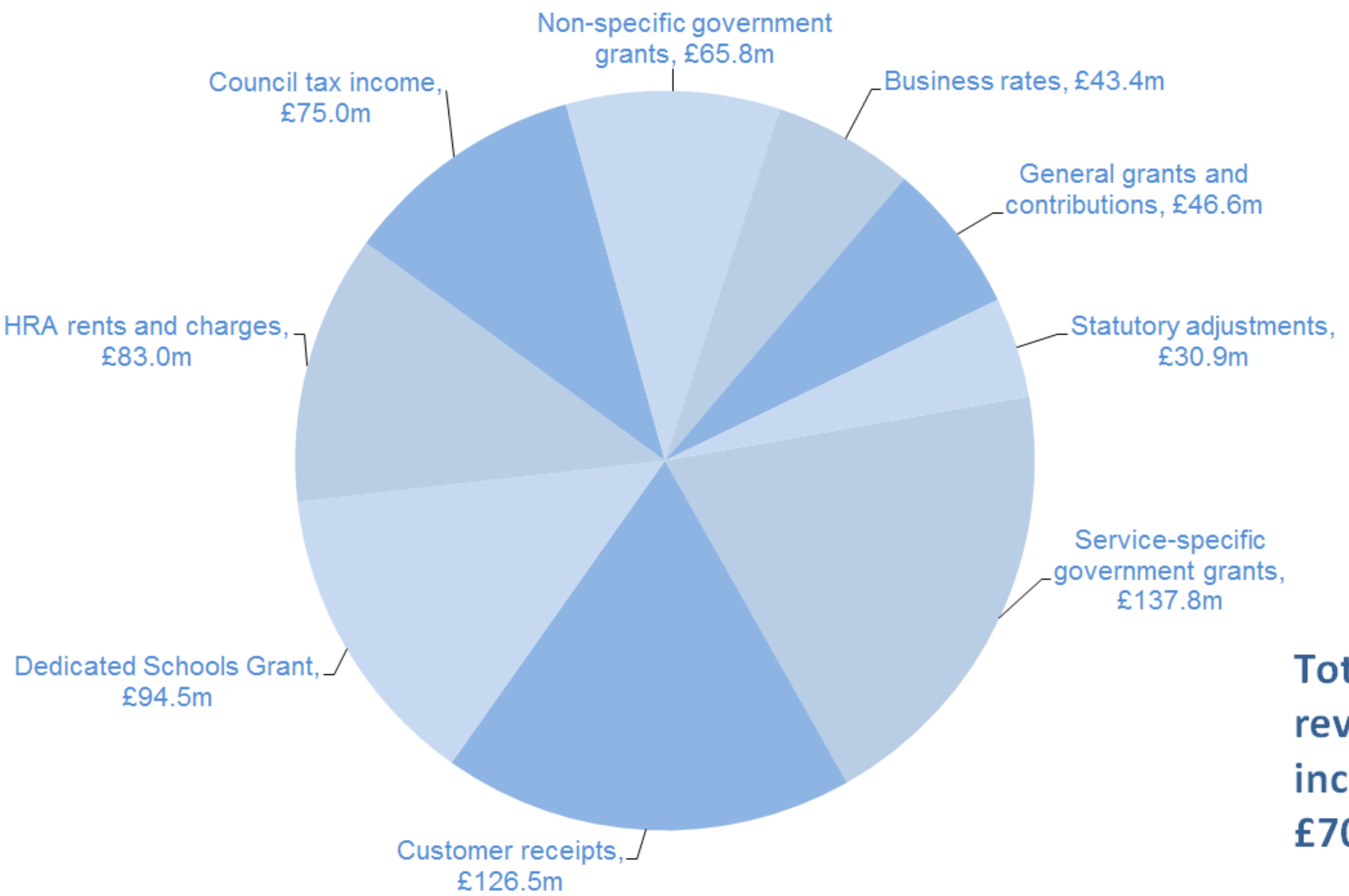
	General Reserve (£000s)	LMS Reserve (£000s)	**General Fund (£000s)**	**HRA (£000s)**	**Totals (£000s)**
Cost of services	188,005	770	**188,775**	(14,268)	**174,507**
Other operating expenditure	15,405	0	**15,405**	(751)	**14,654**
Financing and investment income / expenditure	24,614	0	**24,614**	16,518	**41,132**
Taxation and non-specific grant income	(199,193)	0	**(199,193)**	0	**(199,193)**
(Surplus) / deficit on provision of services	**28,831**	**770**	**29,601**	**1,499**	**31,100**
Accounting adjustments	(30,916)	0	**(30,916)**	(5,723)	**(36,639)**
Reserves transfers	1,314	0	**1,314**	0	**1,314**
Net movement in reserves	**(771)**	**770**	**(1)**	**(4,224)**	**(4,225)**
Opening reserves	**(15,570)**	**(7,816)**	**(23,386)**	**(19,885)**	**(43,271)**
Movement in reserves	(771)	770	**(1)**	(4,224)	**(4,225)**
Closing reserves	**(16,341)**	**(7,046)**	**(23,387)**	**(24,109)**	**(47,496)**

Total General Fund and HRA expenditure in 2015/16 was £697.809m, against total income of £703.348m. This £5.539m surplus represented an increase in the General Fund and HRA reserves, as shown below. This surplus position includes an £1.314m transfer to earmarked reserves.

The following charts show the services on which money was spent and how it was funded (General Fund, comprising General Reserve and schools, and HRA; excluding movements in earmarked reserves):



Total revenue expenditure £703.5m



Total revenue income £703.5m

Position against Budget

The Council's Budget is prepared on a different basis to the Statement of Accounts (which must comply with international accounting rules). The following section presents the Revenue Outturn position against Budget[6] as reported internally to Council and Cabinet. The main measure of the Council's financial performance is the movement in the General Reserve. The following shows the Council's spend against Budget for 2015/16[7]:

	Revised Budget £000s	Outturn £000s	Budget variance £000s
Care, Wellbeing and Learning	118,597	117,114	(1,483)
Communities and Environment	30,410	31,468	1,058
Policy, Economic Growth and Transformation	3,604	3,496	(108)
Corporate Services and Governance	3,559	3,285	(274)
Corporate Resources	7,361	7,648	287
Net service expenditure	**163,531**	**163,011**	**(520)**
Other services and contingencies	3,364	7,145	3,781
Traded and investment income	(2,392)	(4,805)	(2,413)
Capital financing costs	31,510	29,816	(1,694)
Expenditure outside the General Fund	(1,896)	(1,342)	554
Levies	12,228	12,228	0
Net spend before financing	**206,345**	**206,053**	**(292)**
Financing			
Settlement Funding Assessment	(102,408)	(102,615)	(207)
Other grants	(13,686)	(13,958)	(272)
Public Health grant	(15,796)	(15,796)	0
Council tax	(73,455)	(73,455)	0
Collection Fund	(1,000)	(1,000)	0
	(206,345)	**(206,824)**	**(479)**
Net Spend	**0**	**(771)**	**(771)**
General Reserve balance brought forward	**15,570**		
In-year movement	2,085		
Appropriations to earmarked reserves	(1,314)	771	
General Reserve balance carried forward		**16,341**	

The key outcomes for the year are as follows:

- The Council approved a revised Budget of £206.345m for 2015/16; the actual net expenditure position within the Revenue Outturn Report was £206.053m, an under spend of £0.292m on services following a movement in earmarked reserves of £1.314m. After taking into consideration additional funding, this reduces to an under spend of £0.771m.
- As part of the 2015/16 outturn position, reserves levels were assessed. As a result of this review, the General Reserve increased by £0.771m to £16.341m.
- The outturn position includes a provision for workforce management totalling £5.971m.

In addition to the General Reserve above, the General Fund movement also included a £0.770m movement in the LMS Reserve (schools). Schools had total revenue income of £96.432m, which includes delegated funding from the Dedicated Schools Grant, other government grants, income from school meals, lettings and donations. Schools expenditure totalled £97.202m which resulted in the reduction of overall school balances from £7.816m to £7.046m.

[6] Note 8 *Segmental Analysis* provides a reconciliation between the revenue outturn position reported internally (£206.053m) and the cost of services in the Comprehensive Income and Expenditure Statement (£199.417m).

[7] Note that this excludes schools and HRA

Housing Revenue Account (HRA): overall expenditure for 2015/16 amounted to £78.782m with income of £83.006m, resulting in an increase to the reserve of £4.224m. The underspend achieved was mainly in relation to slippage in the Capital Programme and contingencies not being required.

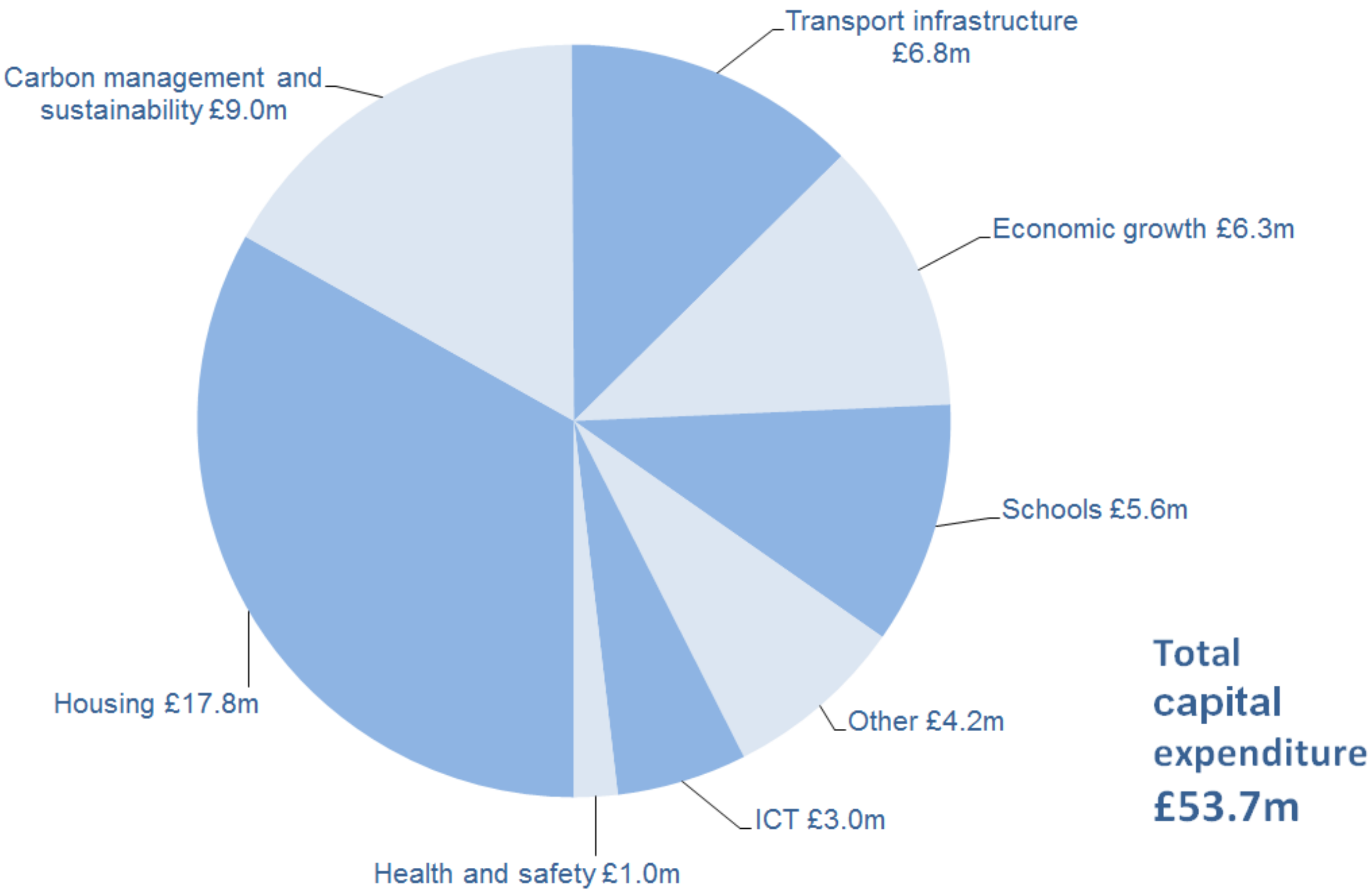
Further details can be found in the Council's Revenue Outturn report to Cabinet (14 June 2016).

Capital income and expenditure summary

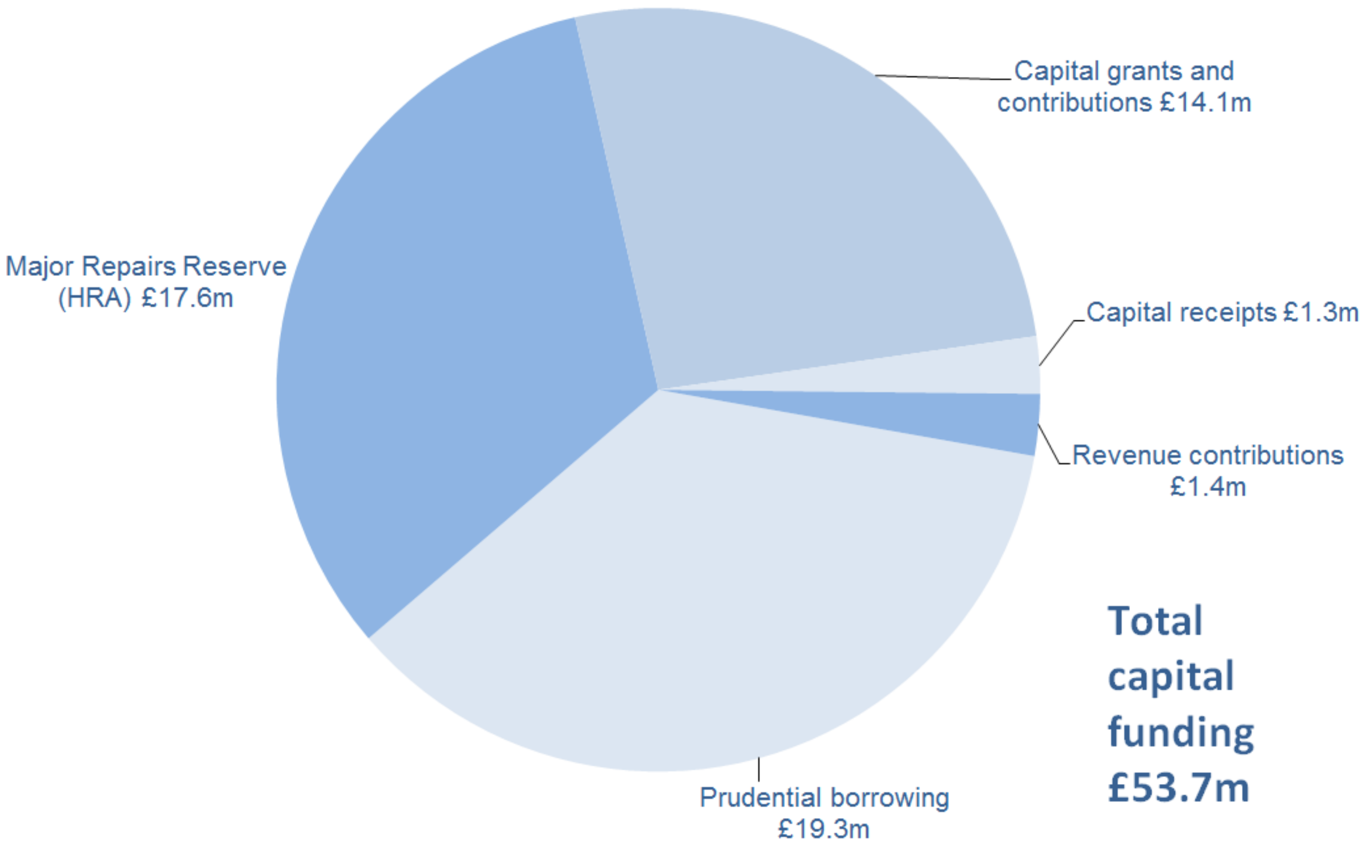
In 2015/16, the Council spent £53.7m on capital schemes (2014/15: £63.2m), with capital investment focused on the delivery of Vision 2030. A number of high priority schemes were supported during the year, with particular emphasis on housing, economic growth, energy efficiency and sustainability projects.

Actual capital expenditure for the year on the Council's non-current assets totalled £47.1m (2014/15: £55.8m). 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 £6.6m (2014/15: £7.4m) on schemes where no asset of the Council was created. This included the award of capital loans to facilitate the development of affordable housing within Gateshead, the award of disabled facilities grants to individuals, investment to bring empty private properties back into use, and works to voluntary aided schools, academies and trust-owned properties. The following chart indicates the breakdown of capital expenditure across the Council:



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



Further information about the specific capital projects supported by the Council during 2015/16 can be found in the Capital Outturn Report to Cabinet of 14 June 2016.

Other Key Items in 2015/16

Material assets and liabilities: changes in 2015/16

As at 31 March 2016, the Council held £1,342.274m of long-term assets, £157.955m of current assets, £147.069m of current liabilities and £1,104.967m of long-term liabilities.

Long-term assets have risen by £5.210m, primarily due to increases in the value of the Council's asset portfolio.

Current assets have increased by £6.080m, which includes the following significant items:

- An increase of £13.054m in short-term investments due to investment management activities – these result in movements between short-term investments, long-term investments and cash;
- A £2.997m increase in short-term debtors, some of which is due to fluctuations in council tax and business rates arrears and changes in bad debt provision levels;
- Changes in the numbers of assets held for sale and inventory levels; and
- An £11.653m decrease in cash and cash equivalents (asset element) due to investment management activities and day-to-day cash flow changes.

The Council's current liabilities have decreased by £4.588m, which includes the following:

- Cash and cash equivalents (overdrafts) have increased by £2.110m;
- Short-term borrowing has increased by £2.734m, reflecting the maturity profile of borrowing and use of prudential borrowing for the capital programme; and
- An decrease of £11.180m in short-term creditors due to fluctuations in the amounts owed by public bodies such as the NHS, and changes in grant receipts in advance.

Long-term liabilities have decreased by £35.401m, mainly reflecting a rise in long term borrowing of £8.869m, reflecting changes in the maturity profile of borrowing, offset by a £42.800m decrease in pension liabilities (£61.160m increase in 2014/15).

Workforce management and exit packages

The 2015/16 Statement of Accounts recognises a cost of £8.641m in relation to actual redundancies and other terminations in 2015/16 and expected redundancies and terminations in 2016/17. This includes 206 compulsory redundancies (175 in 2014/15), 46 voluntary redundancies (129 in 2014/15) and 3 other terminations. This cost includes redundancy payments to employees and strain on the fund costs payable to the appropriate pension fund.

The total cost of redundancy in 2015/16 totalled £6.893m (excluding schools staff). £4.223m of this expenditure was funded from the provision and recognised in 2014/15, with the remaining expenditure of £2.670m being funded from revenue. In addition, as part of the 2015/16 revenue outturn, a provision of £5.971m was created for redundancies in 2016/17.

Pension liability

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

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

The current shortfall in the Council's share of the relevant pension funds has been assessed by independent actuaries as £476.960m (from £519.760m in 2014/15). The deficit on the Fund fell by £42.800m for a variety of reasons (such as investment performance / changes in key demographics); the Council is making the necessary pension deficiency payments (£11.325m in 2015/16) over a 21-year period to address the estimated shortfall. Note 25 to the core financial statements provides further details of the Council's pension disclosures.

Council's borrowing position

The *Budget and Council Tax Level Report,* approved by Council on 26 February 2015, details the 2015/16 borrowing limits for the Council.

The specific borrowing limits set relate to two of the prudential indicators that are required under the Prudential Code[8]. The Council is required to set borrowing limits for the following three financial years. The limits for 2015/16 were as follows:

- Authorised limit for external debt of £755m
- Operational boundary for external debt of £730m

As part of the Council's Treasury Management operation, these indicators are monitored on a daily basis, and neither was exceeded during 2015/16. The highest level of external debt incurred by the Council during the year was £617.899m.

Energy schemes

Construction on the first phase of the Council's town centre district energy scheme will be completed around September 2016. The scheme will support regeneration of the town centre, reduce carbon emissions and lower energy costs for homes and buildings in the area. Over £18m has been invested in the first phase of the scheme, with further extensions to be added over the coming years. The scheme will be managed through an energy services company, which will also be used as a vehicle for planned and future energy projects.

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

Economy, efficiency and effectiveness

The Council Plan 2015-2020[9] was approved by Cabinet in July 2015, with Gateshead's Sustainable Community Strategy, Vision 2030[10], also refreshed and endorsed by Cabinet on the 3rd November 2015. Both documents endorse shared desired outcomes for Gateshead, which are:

- Prosperous Gateshead – a thriving economy for all;
- Live Love Gateshead – a sense of pride and ownership by all; and
- Live Well Gateshead – a healthy, inclusive and nurturing place for all.

To support the monitoring of progress in delivering the outcomes of the Council Plan and Vision 2030, the Council has a range of strategic indicators in line with the Council Plan; these are reported to both overview and scrutiny committees and Cabinet every six months[11]. Any amendments to the performance framework arising from the new Council Plan will be reported through the appropriate channels.

The corporate performance management framework contains national frameworks including the Public Health Outcomes Framework (PHOF), NHS Outcomes Framework (NHSOF), Adult Social Care Outcomes Framework (ASCOF) and Children and Young People's Outcomes Framework. The strategic nature of this framework allows a robust examination and assessment of performance.

The Annual Performance Report was taken to Cabinet on 12 July 2016[12], and covers all key areas of performance management. Information can also be found in the Council's Annual Report.

In addition to the above, the Council has a Change Programme which aims to increase economy, efficiency and effectiveness; Cabinet receives quarterly updates on progress.

Significant Issues for 2016/17 and Beyond

Funding and budgets

Government Funding

Within the 2016/17 local government finance settlement, the Government provided some indicative core funding levels up to 2019/20 which gives a high level indication of direction of travel, especially with regards to revenue support grant. However, uncertainty still exists in respect of likely Government funding levels in relation to other grants over the period as well as instability that arises from the volatility of business rates funding and the implications of the move towards a new funding regime of 100% rate retention from 2019.

Government figures highlight significant challenges ahead for councils who will have to make savings, despite receiving a flat-cash settlement over the next four years, sufficient to compensate for any additional cost pressures they face. These include those arising from general inflation, cost pressures in the care sector, increases in the number of adults and children needing support and rising levels of need, increases in demand for everyday services as the population grows, pressure on homelessness budgets and increases in core costs such as national insurance, the National Living Wage and pension contributions.

The Medium Term Financial Strategy (MTFS) sets out the Council's approach to achieving a sustainable budget over the medium term whilst ensuring that all revenue resources are directed towards corporate priorities and the delivery of Vision 2030. The MTFS describes the financial direction of the Council over the planning period and outlines the financial pressures it will face.

Medium term financial planning remains difficult and the plan has been prepared against the expectation of continuing funding cuts for local government coupled with increased demand for social care and the impact of welfare reform. Further details can be found in the MTFS, which will be presented to Cabinet on 12 July 2016.

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[9] www.gateshead.gov.uk/Council%20and%20Democracy/About-the-Council/policies/council-plan.aspx
[10] www.gateshead.gov.uk/People%20and%20Living/communitystrategy/Vison2030.aspx
[11] www.gateshead.gov.uk/Council%20and%20Democracy/About-the-Council/Performance/Performance.aspx
[12] https://myservice.gateshead.gov.uk/Committee/home.page

Welfare reform is likely to continue to place additional demands on local authority services as well as significantly impacting on local authority finances with a further £12bn cuts to the welfare budget included in the Summer Budget 2015. The Social Care Act will also put additional strain on local authority services and while provision has been made to further improve the integration of social care and health services through the Better Care Fund, it is unclear whether resources allocated to local government will be sufficient to cover additional burdens.

Devolution

The North East Combined Authority and seven north east authorities have been in discussions with the Government regarding the devolution of a number of powers and the election of a regional mayor. The Council has decided that the current devolution offer from Government is not acceptable, although final details of any proposed agreement are still under discussion. There may be impacts on the Council as a result of this decision but the precise implications are unclear.

Collection Fund

The 2015/16 budget includes a contribution from the Collection Fund of £1.0m. The current gap assumes no further contributions as the position on the Collection Fund will be impacted by the level of collection rates of both council tax and business rates. These could be adversely affected by economic conditions and the impact of welfare reform including the localisation of council tax support.

Revenue budget 2016/17

Council agreed the revenue budget for 2016/17 at its meeting in February 2016. This was set at £198.883m (excluding schools) and included £18.796m in savings.

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

The 2016/17 budget includes a contingency of £7.3m to manage the risk of any in year pressures such as workforce management costs and winter maintenance.

There are also a number of changes to Dedicated Schools Grant funding for schools:

- National Funding Formula for mainstream schools will be phased in from 2017/18, and fully implemented from 2019/20
- The introduction of a formula for the High Needs Block of DSG
- The introduction of a national funding formula for 3 and 4 year old children and the extension of 30 hours of early education entitlement for children of working parents

Capital programme 2016/17

On 25 February 2016, the Council approved a capital programme of £71.1m for 2016/17, which included £22.270m of planned HRA capital investment. The level of investment over the next five years (2016/17 to 2020/21) is expected to amount to £250.6m, representing a significant level of strategic investment to deliver Vision 2030. Economic and housing growth remains a key priority for the Council's capital investment, with planned investment of over £26m over the next three years in these projects.

Workforce management costs

The 2016/17 budget includes a contingency of £1.1m for workforce management costs and, coupled with the provision of £5.971m, reflect the anticipated redundancy costs as a result of the estimated funding gap. Further resource may be required from reserves.

Welfare reform

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

Pensions

The next triennial review of the Local Government Pension Scheme (LGPS) will be as at 31 March 2016, and will impact from 2017/18. Given historic trends, the valuation is likely to result in additional cost pressures. Stepped deficiency payments have been included in the Council's MTFS.

Economic growth

The Council will continue to place an increasing focus on local economic growth. A New Development Deal was agreed between the Government, Gateshead and Newcastle in 2012 which included, amongst other things, the creation of an Accelerated Development Zone (ADZ). This ADZ, which includes the Gateshead Quays and Baltic Business Quarter, allows the Council to retain 100% of business rates growth (rather than the 49% retainable in the rest of the Borough), providing a strong incentive for regeneration. On 2 June 2015 Cabinet approved the appointment of a development partner for Gateshead Quays, which will assist with regeneration plans and business rates growth.

The retained rates that the Council will have available for future funding will depend on the extent to which business growth can be supported in the area as well being influenced by loss of income through the cost of appeals, refunds, changes in collection rates and the impact of rate avoidance.

Code of Practice on Transport Infrastructure Assets

In 2016/17, councils will adopt the measurement requirements of the Code of Practice on Transport Infrastructure Assets. Such assets are to be recognised separately and measured at depreciated replacement cost for the first time

The expected amount of any revaluation gains and losses to be recognised on reclassification and re-measurement is £1.5bn. The expected changes in 2015/16 comparatives in the 2016/17 financial statements are depreciation (£37m) and revaluation gains and losses (£1.5bn).

EU referendum

On 23 June 2016, the UK voted to end their membership of the EU. This has resulted in the UK entering a period of significant uncertainty that may impact on the Council in the future.

The Statement of Accounts

The Statement of Accounts[13] is set out on pages 14 to 68. The Statement covers the financial year from 1 April 2015 to 31 March 2016, 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 13) explains both the Council's and the Strategic Director, Corporate Resources' responsibilities in respect of the Statement of Accounts.

Core Financial Statements (pages 14 to 62):

Movement in Reserves Statement (Page 14) shows the movement in the year across the different reserves held by the Council, analysed into 'usable' reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other, 'unusable' reserves.

Comprehensive Income and Expenditure Statement (Page 16) 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 service expenditure analysis set out in CIPFA's Service Reporting Code of Practice (SeRCOP).

Balance Sheet (Page 17) 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.

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

Cash Flow Statement (Page 18) summarises the cash and cash equivalent receipts and payments of the Council arising from transactions with third parties.

Notes to the Core Financial Statements (Page 20) provide additional information for significant items to support the core statements above.

Supplementary Financial Statements (pages 63 to 68):

Housing Revenue Account (HRA)

- **HRA Income and Expenditure Statement (Page 63)** covers the provision and maintenance of the Council's housing stock. There is a statutory requirement[14] to produce this account, which separates housing from all other Council services.
- **Statement of Movement on the HRA Balance (Page 63)** shows how the HRA Income and Expenditure Statement surplus or deficit for the year reconciles to the movement in the HRA balance for the year.
- **Notes to the Housing Revenue Account (Page 64)** provide additional information to support the HRA statements.

Collection Fund

- **The Collection Fund Statement (Page 67)** - the Council is required[15] to maintain a Collection Fund, which shows the transactions of the Council in relation to national non- domestic rates and council tax and illustrates the way in which these have been distributed to preceptors and the General Fund.
- **Notes to the Collection Fund Statement (Page 68)** provide additional information to support the Collection Fund Statement.

Documents Supporting the Statement of Accounts

Annual Governance Statement (Page 69), required by regulations[16] to accompany the Statement of Accounts, outlines the Council's approach to corporate governance and internal control.

Independent Auditor's Report (Page 75) details the basis of the external auditor's opinion on the Statement of Accounts.

Glossary of Terms (Page 77) includes a description of the key terms used in the Statement of Accounts, along with explanations of any technical terms.

Contacts (Page 87) includes a list of key contacts regarding the Statement of Accounts.

Darren Collins
Strategic Director, Corporate Resources

[14] See http://www.legislation.gov.uk/ukpga/1989/42/part/VI
[15] In accordance with section 89 of the Local Government Finance Act 1988 (as amended in 1992)
[16] Paragraph 4(4)(a) of the Accounts and Audit Regulations 2015

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, Corporate Resources;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

The Strategic Director, Corporate Resources' Responsibilities

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

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

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

The Strategic Director, Corporate Resources has also:

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

Chief Finance Officer's Certificate

I hereby certify that the Statement of Accounts for the year ended 31 March 2016, required by the Accounts and Audit Regulations 2015 are set out in the following pages.

I further certify that the Statement of Accounts give a true and fair view of the financial position of the Council at 31 March 2016 and of its income and expenditure for the year ended 31 March 2016.

Signed: Date:

Darren Collins
Strategic Director, Corporate Resources

Part 2: Core Financial Statements

Movement in Reserves Statement

Page 49

	Note	General Fund Balance £000s	Earmarked GF Reserves £000s	Housing Revenue Account £000s	Major Repairs Reserve £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Total Useable Reserves £000s	Unusable Reserves £000s	Total Authority Reserves £000s
Balance as at 31 March 2015	**6b**	**23,386**	**35,342**	**19,885**	**0**	**7,499**	**6,243**	**92,355**	**104,559**	**196,914**
Surplus or (deficit) on provision of services		(29,601)	0	(1,499)	0	0	0	**(31,100)**	0	**(31,100)**
Other comprehensive income and (expenditure)		0	0	0	0	0	0	**0**	82,379	**82,379**
Total comprehensive income and (expenditure)		**(29,601)**	**0**	**(1,499)**	**0**	**0**	**0**	**(31,100)**	**82,379**	**51,279**
Adjustments between accounting basis and funding basis under regulations	6a	30,916	0	5,723	0	3,324	(3,721)	**36,242**	(36,242)	**0**
Net increase / (decrease) before transfers to earmarked reserves		**1,315**	**0**	**4,224**	**0**	**3,324**	**(3,721)**	**5,142**	**46,137**	**51,279**
Transfers to / (from) earmarked reserves	6b	(1,314)	1,314	0	0	0	0	**0**	0	**0**
Increase or (decrease) in year		**1**	**1,314**	**4,224**	**0**	**3,324**	**(3,721)**	**5,142**	**46,137**	**51,279**
Balance as at 31 March 2016	**6b**	**23,387**	**36,656**	**24,109**	**0**	**10,823**	**2,522**	**97,497**	**150,696**	**248,193**

2014/15 movements:

	Note	General Fund Balance	Earmarked GF Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Useable Reserves	Unusable Reserves	Total Authority Reserves
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance as at 31 March 2014		**22,970**	**27,319**	**18,008**	**0**	**4,964**	**4,326**	**77,587**	**174,575**	**252,162**
Surplus or (deficit) on provision of services		(22,571)	0	(5,470)	0	0	0	**(28,041)**	0	**(28,041)**
Other comprehensive income and (expenditure)		0	0	0	0	0	0	**0**	(27,207)	**(27,207)**
Total comprehensive income and (expenditure)		**(22,571)**	**0**	**(5,470)**	**0**	**0**	**0**	**(28,041)**	**(27,207)**	**(55,248)**
Adjustments between accounting basis and funding basis under regulations	6a	31,010	0	7,347	0	2,535	1,917	**42,809**	(42,809)	**0**
Net increase / (decrease) before transfers to earmarked reserves		**8,439**	**0**	**1,877**	**0**	**2,535**	**1,917**	**14,768**	**(70,016)**	**(55,248)**
Transfers to / (from) earmarked reserves	6b	(8,023)	8,023	0	0	0	0	**0**	0	**0**
Increase or (decrease) in year		**416**	**8,023**	**1,877**	**0**	**2,535**	**1,917**	**14,768**	**(70,016)**	**(55,248)**
Balance as at 31 March 2015	**6b**	**23,386**	**35,342**	**19,885**	**0**	**7,499**	**6,243**	**92,355**	**104,559**	**196,914**

Comprehensive Income and Expenditure Statement

2014/15				2015/16			
Gross Exp.	Gross Income	Net Exp.	Service	Gross Exp.	Gross Income	Net Exp.	Notes
£000s	£000s	£000s		£000s	£000s	£000s	
6,861	(3,780)	3,081	Central services to the public	4,596	(3,708)	888	
32,566	(6,303)	26,263	Cultural and related services	17,788	(5,445)	12,343	
46,811	(22,289)	24,522	Environmental and regulatory services	40,987	(25,302)	15,685	
15,332	(7,727)	7,605	Planning services	35,118	(8,132)	26,986	
171,826	(134,370)	37,456	Children's and education services	172,807	(127,688)	45,119	
16,379	(3,674)	12,705	Highways & transport services	15,796	(4,801)	10,995	
53,418	(81,270)	(27,852)	Local authority housing (HRA)	56,102	(83,006)	(26,904)	
16,745	0	16,745	- asset revaluations	12,049	0	12,049	
91,639	(89,259)	2,380	Other housing services	91,167	(88,586)	2,580	
99,257	(34,740)	64,517	Adult social care	100,822	(37,831)	62,991	
14,833	(15,924)	(1,091)	Public Health	15,079	(15,907)	(828)	
8,929	(183)	8,746	Corporate & democratic core	8,547	(258)	8,289	
(672)	0	(672)	Non-distributed costs	4,313	0	4,313	
573,924	**(399,519)**	**174,405**	**Cost of services**	**575,171**	**(400,664)**	**174,507**	8
		25,599	Other operating expenditure			14,654	7b
		43,645	Financing and investment income & expenditure			41,132	7b
		(215,608)	Taxation and non-specific grant income			(199,193)	7b
		28,041	**(Surplus) or deficit on provision of services**			**31,100**	
		(26,877)	(Surplus) or deficit on revaluation of non-current assets			(31,029)	17
		54,670	Re-measurements of the net defined benefit liability			(51,060)	25
		(494)	(Surplus) or deficit on revaluation of available for sale financial assets			(290)	
		(92)	Other gains/losses			0	
		27,207	**Other comprehensive (income) and expenditure**			**(82,379)**	
		55,248	**Total comprehensive (income) and expenditure**			**(51,279)**	

Balance Sheet

31/03/15 £000s		31/03/16 £000s	Notes
1,283,666	Property, plant & equipment	1,287,002	17
21,539	Heritage assets	21,834	18
100	Investment property	0	
1,666	Intangible assets	1,569	
12,077	Long-term investments	12,367	26
18,016	Long-term debtors	19,502	22
1,337,064	**Long-term assets**	**1,342,274**	
52,050	Short-term investments	65,104	26
2,083	Assets held for sale	3,800	
1,637	Inventories	1,602	
55,785	Short-term debtors	58,782	22
40,320	Cash and cash equivalents	28,667	21
151,875	**Current assets**	**157,955**	
(5,008)	Cash and cash equivalents	(7,118)	21
(67,729)	Short-term borrowing	(70,463)	26
(5,879)	Short-term provisions	(7,627)	24
(73,041)	Short-term creditors	(61,861)	23
(151,657)	**Current liabilities**	**(147,069)**	
(70,590)	Long-term creditors	(69,428)	23
(5,495)	Long-term provisions	(5,391)	24
(544,319)	Long-term borrowing	(553,188)	26
(519,760)	Pensions liability	(476,960)	25
(204)	Capital grants receipts in advance	0	
(1,140,368)	**Long-term liabilities**	**(1,104,967)**	
196,914	**Net assets**	**248,193**	
	Usable reserves:		
7,499	Capital Receipts Reserve	10,823	
6,243	Capital Grants Unapplied	2,522	
15,570	General Fund - General Reserve	16,341	
7,816	General Fund - LMS Reserve	7,046	
19,885	Housing Revenue Account	24,109	
35,342	Earmarked Reserves	36,656	
0	Major Repairs Reserve	0	
92,355	**Total usable reserves**	**97,497**	6b
104,559	**Unusable reserves**	**150,696**	6b
196,914	**Total reserves**	**248,193**	

Signed: Date:

Darren Collins
Strategic Director, Corporate Resources

Cash Flow Statement

2014/15 £000s		2015/16 £000s
28,041	**Net (surplus) or deficit on the provision of services**	**31,100**
	Adjustments to net surplus or deficit on the provision of service for non-cash movements:	
(37,863)	Depreciation of non-current assets	(39,557)
(30,368)	Impairment / downward revaluation of non-current assets	(30,167)
(850)	Amortisation of intangible non-current assets	(819)
(6,490)	Pension adjustments	(8,260)
(394)	Increase/decrease in impairment for provision for bad debts	(234)
(3,754)	Contributions (to) / from provisions	(1,644)
(18,927)	Carrying amount of PP&E, investment property, assets held for sale and intangible assets sold	(7,013)
(3,191)	Other non-cash movement	(9,367)
(101,837)		**(97,061)**
	Accruals adjustments:	
(1,298)	(Decrease)/increase in inventories	(35)
6,845	(Decrease)/increase in debtors	5,366
16	(Decrease)/increase in interest debtors	63
(10,925)	Decrease/(increase) in creditors	10,021
(233)	Decrease/(increase) in interest creditors	31
(5,595)		**15,446**
	Adjustments for items included in the net surplus or deficit on the provision of service that are investing or financing activities:	
8,106	Proceeds from the disposal of PP&E, investment property, assets held for sale and intangible assets	7,078
19,316	Capital grants credited to surplus or deficit on the provision of services	14,962
27,422		**22,040**
	Reversal of operating activity items included in the net surplus or deficit on the provision of service that are shown separately below:	
(25,466)	**Reversals of amounts disclosed separately below**	**(25,331)**
	Cash flows from operating activities includes the following items:	
26,748	Interest paid	27,283
(1,515)	Interest received	(1,726)
25,233		**25,557**
(52,202)	**Net cash flows from operating activities**	**(28,249)**

	Net cash flows from investing activities:	
55,803	Purchase of property, plant and equipment, investment property, assets held for sale and intangible assets	47,108
344,951	Purchase of short term and long term investments	381,125
5,690	Other payments for investing activities	4,612
(8,106)	Proceeds from the sale of property, plant and equipment, investment property, assets held for sale and intangible assets	(7,078)
(327,951)	Proceeds from the sale of short term and long term investments	(368,236)
(16,520)	Capital grants received (government)	(7,088)
(494)	Other receipts for investing activities	
53,373	**Net cash flows from investing activities**	**50,443**
	Net cash flows from financing activities:	
(52,000)	Cash receipts of short and long term borrowing	(33,000)
2,724	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on Balance Sheet PFI contracts	3,109
20,433	Repayment of short and long term borrowings	21,366
(28,843)	**Net cash flows from financing activities**	**(8,525)**
(27,672)	**Net (increase)/ decrease in cash and cash equivalents**	**13,669**

7,640	**Cash and cash equivalents at the beginning of the period**	**35,312**
35,312	**Cash and cash equivalents at the end of the period**	**21,643**

Notes to the Core Financial Statements

1. Significant Accounting Policies

This Statement of Accounts summarises the Council's transactions during the financial year and its position at the year-end. Legislation[17] requires that the Council prepare the Statement annually, and in accordance with proper practice (the local government Code of Practice, the Service Reporting Code of Practice (SeRCOP) and international accounting standards).

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

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

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

2. Critical judgements in applying accounting policies

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

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

3. Events after the Balance Sheet date

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

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

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

4. Accounting standards issued but not yet adopted

A number of changes to accounting standards may affect the Statement of Accounts from 1 April 2016 and may require retrospective application.

Adoption of the measurement requirements of the Code of Practice on Transport Infrastructure Assets in the 2016/17 Code: transport infrastructure assets are to be recognised as a separate class of property, plant and equipment and measured at depreciated replacement cost for the first time in the 2016/17 financial statements. The carrying amount of assets expected to be reclassified as transport infrastructure assets is £124m.

[17] www.legislation.gov.uk/uksi/2011/817/pdfs/uksi_20110817_en.pdf

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 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- **Pension liabilities:** estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. Sensitivities are included in Note 25.
- **Depreciation:** assets are depreciated over their estimated useful lives and are based on assumptions about the level of repairs and maintenance that will be incurred and useful economic lives. Depreciation totalled £157.3m as at 31 March 2016; a change in methodology resulting in a 1% movement would change the Balance Sheet by £1.6m.
- **Revaluations:** asset valuations are carried out on a rolling programme of up to five years, meaning that there is a possibility of material changes in value between valuations. The risk is minimised by annual valuations of all significant assets and annual reviews of market conditions for all asset categories to ensure that the fair value of assets as at 31 March are not materially misstated. A 1% change in asset valuation would equate to a £12.9m, which would represent a material movement.
- **Provisions:** the Council makes prudent provision for likely future liabilities, such as insurance costs and the impact of unpaid debts. Changes in assumptions are very unlikely to materially affect the Statement of Accounts. A 1% change in provisions would equate to £0.1m, which would be immaterial.

6. Movement in Reserves Statement adjustments

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

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

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:

2015/16 movements (£000s)	**General Fund**	**HRA**	**MRR**	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Unusable Reserves**
Charges for depreciation of non-current assets	(28,141)	0	(11,416)	0	0	*39,557
Impairment and revaluation losses (charged to *surplus or deficit on provision of services*) of non-current assets	(18,118)	(12,049)	0	0	0	*30,167
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	14,963	0	0	0	(1,485)	*(13,478)
Revenue expenditure funded from capital under statute	(4,612)	0	0	0	0	*4,612
Net gain or loss on sale of non-current assets	(821)	741	0	(6,933)	0	†7,013
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	(7,627)	(633)	0	0	0	‡8,260
Statutory provision for repayment of debt	16,245	0	0	0	0	*(16,245)
Capital expenditure charged to the General Fund / HRA	1,383	6,204	0	0	0	*(7,587)
Other transfers to/from other reserves required by legislation	(4,188)	14	11,416	3,609	5,206	$(16,057)
Adjustments between accounting basis and funding basis under regulations	**(30,916)**	**(5,723)**	**0**	**(3,324)**	**3,721**	**36,242**

* All charged to Capital Adjustment Account; † includes 958 to Revaluation Reserve & 6,055 to Capital Adjustment Account; ‡ All charged to Pension Reserve; $ Includes 3,034 to Revaluation Reserve & (20,804) to Capital Adjustment Account

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2014/15 movements (£000s)	**General Fund**	**HRA**	**MRR**	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Unusable Reserves**
Charges for depreciation of non-current assets	(26,297)	0	(11,566)	0	0	37,863
Impairment and revaluation losses (charged to *surplus or deficit on provision of services*) of non-current assets	(13,785)	(16,745)	0	0	0	30,530
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	19,316	0	0	0	(5,129)	(14,187)
Revenue expenditure funded from capital under statute	(5,690)	0	0	0	0	5,690
Net gain or loss on sale of non-current assets	(11,953)	948	0	(7,922)	0	18,927
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	(5,883)	(607)	0	0	0	6,490
Statutory provision for repayment of debt	15,862	0	0	0	0	(15,862)
Capital expenditure charged to the General Fund / HRA	1,770	9,044	0	0	0	(10,814)
Other transfers to/from other reserves required by legislation	(4,350)	13	11,566	5,387	3,212	(15,828)
Adjustments between accounting basis and funding basis under regulations	**(31,010)**	**(7,347)**	**0**	**(2,535)**	**(1,917)**	**42,809**

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

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

Balance 31/03/15 £000s		Transfers in £000s	Transfers out £000s	Balance 31/03/16 £000s
	Usable reserves			
	General Fund balance:			
15,570	General Reserve	5,480	(4,709)	**16,341**
7,816	LMS Budget Share Reserve	0	(770)	**7,046**
23,386	**General Fund**	**5,480**	**(5,479)**	**23,387**
	Earmarked General Fund reserves:			
3,000	Insurance	0	0	3,000
2,500	Strategic change reserve	0	0	2,500
1,314	Grant clawback	0	0	1,314
6,009	Gateshead Development Pool	0	0	6,009
2,295	Developers' contributions	445	(704)	2,036
3,667	Unapplied revenue grants	2,046	(1,454)	4,259
3,644	Economic growth reserve	0	(188)	3,456
5,000	Business rates	0	0	5,000
1,883	Budget flexibility reserve	1,689	(576)	2,996
1,167	Discretionary Social Fund reserve	0	(210)	957
2,035	Public health reserve	0	(263)	1,772
2,828	DSG reserve	529	0	3,357
35,342	**Total earmarked General Fund reserves:**	**4,709**	**(3,395)**	**36,656**
19,885	Housing Revenue Account (HRA) balance	4,224	0	24,109
	Earmarked HRA reserves:			
0	Major Repairs Reserve	17,620	(17,620)	0
7,499	Capital Receipts Reserve	7,095	(3,771)	10,823
6,243	Capital Grants Unapplied	1,485	(5,206)	2,522
92,355	**Total usable reserves**	**40,613**	**(35,471)**	**97,497**
	Unusable reserves			
107,947	Revaluation Reserve	31,030	(3,993)	134,984
510,050	Capital Adjustment Account	59,024	(82,120)	486,954
(3,894)	Financial Instrument Adjustment Account	18	0	(3,876)
11,825	Available for Sale Financial instruments Reserve	290	0	12,115
1,925	Deferred Capital Receipts Reserve	0	(136)	1,789
(126)	Collection Fund Adjustment Account	0	(997)	(1,123)
(3,408)	Accumulated Absences Account	221	0	(3,187)
(519,760)	Pensions Reserve	42,800	0	(476,960)
104,559	**Total unusable reserves**	**133,383**	**(87,246)**	**150,696**
196,914	**Total reserves of the Council**	**173,996**	**(122,717)**	**248,193**

Usable Reserves

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

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

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

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

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

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

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

Unusable Reserves

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

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

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

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

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

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

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

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

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

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

7. Comprehensive Income and Expenditure Statement (CIES) information

a. Key accounting policies:

Accruals of expenditure and income

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

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

Overheads

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

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

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

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

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

b. Analysis of items below Cost of Services:

2014/15 £000s		2015/16 £000s
	Other operating expenditure	
10,822	(Gains) / losses on the disposal of non-current assets	(64)
	Precepts and levies:	
156	Environment Agency levy	159
20	Tyne Port Health Authority precept	18
12,319	Tyne and Wear Integrated Transport Authority levy	12,069
8	Lamesley Parish Council precept	8
2,274	Payments to the housing capital receipts pool	2,464
25,599		**14,654**
	Financing and investment income and expenditure	
29,838	Interest payable and similar charges	30,996
18,920	Net interest on defined benefit liability / (asset)	15,950
(1,588)	Interest receivable and similar income	(1,898)
(3,525)	(Surpluses) / deficits on trading activities	(3,916)
43,645		**41,132**
	Taxation and non-specific grant income	
(73,920)	Council tax income	(75,001)
(81,167)	Government grants not attributable to services	(65,787)
(19,316)	Capital grants and contributions	(14,962)
(41,205)	Business rates redistribution	(43,443)
(215,608)		**(199,193)**

c. Material items of income or expense:

The Code requires the separate disclosure of any individual material items of income or expense within the Statement of Accounts. These have been disclosed elsewhere within the notes, and relate to: depreciation and downward revaluations (£39.557m and £30.167m respectively; *see Notes 6a, 17 and HRA Notes 6 and 7*), actuarial pension adjustments (£51.060m; *see Notes 6a and 25*), and surpluses on revaluation (£31.029m; *see Note 17*).

8. Segmental analysis

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

Service (2015/16)	Revised Budget £000s	Proposed reserves movement £000s	Outturn £000s	Budget Variance £000s
Care, Wellbeing & Learning				
Social Work - Children & Families	20,506	0	22,611	2,105
Children & Families Support	4,935	(464)	4,512	(423)
Children's Commissioning	4,683	(112)	5,020	337
Learning & Schools	2,637	552	1,838	(799)
Adult Social Care & Independent Living	66,617	(117)	63,637	(2,980)
Commissioning & Business Development	3,311	150	2,876	(435)
Housing General Fund	112	0	824	712
Public Health	15,796	(262)	15,796	0
Communities & Environment				
Development & Public Protection	2,021	(67)	2,181	160
Council Housing, Design & Technical Services	(362)	150	(419)	(57)
Transport Strategy	1,891	529	2,185	295
Culture, Communities, Leisure & Volunteering	7,384	(84)	9,085	1,701
Commissioning & Business Development	171	0	217	46
Facilities Management	2,026	160	2,103	77
Waste Services, Grounds Maintenance & Fleet Management	12,931	(313)	11,837	(1,094)
Construction General Fund	4,349	0	4,279	(70)
Policy, Economic Growth & Transformation				
Policy, Transformation & Communications	2,321	0	2,213	(108)
Economic & Housing Growth	1,283	69	1,283	0
Corporate Services & Governance				
Legal, Democratic & Property Services	798	0	782	(16)
Human Resources & Litigation	2,310	0	2,093	(217)
Corporate Commissioning & Procurement	452	0	410	(42)
Corporate Resources				
Corporate Finance	1,359	0	1,343	(16)
Customer & Financial Services	4,203	(210)	4,047	(156)
Housing Benefits	(711)	0	(172)	539
ICT Services	2,510	0	2,430	(80)
Other Services & Contingencies	**3,364**	**0**	**7,145**	**3,781**
Traded and Investment Income	**(2,392)**	**1,333**	**(4,805)**	**(2,413)**
Capital Financing Costs	**31,510**	**0**	**29,816**	**(1,694)**
Expenditure Passed outside General Fund	**(1,896)**	**0**	**(1,342)**	**554**
Levies	**12,228**	**0**	**12,228**	**0**
NET BUDGET	**206,345**	**1,314**	**206,053**	**(292)**
Financed by:				
Settlement Funding Assessment (SFA)	(102,408)	0	(102,615)	(207)
Other Grants	(13,687)	0	(13,959)	(272)
Public Health	(15,796)	0	(15,796)	0
Council Tax	(73,455)	0	(73,455)	0
Collection Fund (Council Tax)	(1,000)	0	(1,000)	0
TOTAL FUNDING	**(206,345)**	**0**	**(206,824)**	**(479)**
PROJECTED (UNDER) / OVER SPEND	**(0)**	**1,314**	**(771)**	**(771)**

[Note that figures may not sum due to roundings]

2014/15 comparative figures were as follows:

Service	Revised Budget £000s	Outturn £000s	Budget Variance £000s
Care, Wellbeing & Learning			
Social Work - Children & Families	20,740	21,023	283
Children & Families Support	5,554	4,698	(856)
Children's Commissioning	4,956	5,079	123
Learning & Schools	2,866	2,969	103
Adult Social Care & Independent Living	63,093	60,594	(2,499)
Commissioning & Business Development	7,738	8,049	311
Housing General Fund	587	946	359
Public Health	15,832	14,758	(1,074)
Communities & Environment			
Development & Public Protection	2,642	2,598	(44)
Energy Strategy & Design Services	37	(69)	(106)
Transport Strategy	3,026	3,269	243
Culture, Communities & Volunteering	7,148	7,088	(60)
Commissioning & Business Development	223	175	(48)
Facilities Management & Leisure	4,407	4,701	294
Waste Services & Grounds Maintenance	14,608	14,879	271
Construction Services	4,759	4,751	(8)
Policy, Economic Growth & Transformation			
Policy, Transformation & Communications	1,927	1,814	(113)
Economic & Housing Growth	2,358	2,454	96
Corporate Services & Governance			
Democratic, Legal & Property Services	829	1,198	369
Human Resources & Litigation	2,635	2,408	(227)
Corporate Commissioning & Procurement	489	552	63
Corporate Resources			
Corporate Finance	1,349	1,240	(109)
Customer & Financial Services	4,056	4,012	(44)
Housing Benefits	(711)	(608)	103
ICT Services	2,369	2,379	10
Other Services & Contingencies	5,628	5,202	(426)
Capital Financing Costs	28,690	27,380	(1,310)
Investment Income	(1,302)	(1,419)	(117)
Sub Total before Levies	**206,533**	**202,120**	**(4,413)**
Total Levies	12,475	12,475	0
Net Spend Before Financing	**219,008**	**214,595**	**(4,413)**
Construction Trading Account	**0**	**(1,285)**	**(1,285)**
	219,008	**213,310**	**(5,698)**
Financed by:			
Start Up Funding Assessment	(117,067)	(117,067)	0
Other Grants	(12,856)	(12,899)	(43)
Public Health	(15,832)	(15,832)	0
Council Tax	(71,253)	(71,253)	0
Collection Fund	(2,000)	(2,000)	0
Earmarked Reserves	0	1,015	1,015
Total funding	**(219,008)**	**(218,036)**	**972**
Net Spend	**0**	**(4,726)**	**(4,726)**

Reconciliation between the segmental reporting analysis and an analysis of total income & expenditure (subjective analysis)

2014/15 Total £000s	Service	2015/16 Service analysis £000s	Not reported in service accounts £000s	Not included in CI&E £000s	Support services' reallocation £000s	Other £000s	**Net cost of services £000s**	Corporate amounts £000s	**Total £000s**
(318,215)	Government grants & contributions	(210,731)	896	(21,603)	0	0	**(231,438)**	(64,251)	**(295,689)**
(43,312)	Other grants	(46,782)	1,042	0	0	0	**(45,740)**	(15)	**(45,755)**
(63,731)	Customer and client receipts	(68,343)	21,294	0	0	0	**(47,049)**	(15,054)	**(62,103)**
(2,926)	Interest received	(1,797)	1,769	0	0	0	**(28)**	(1,898)	**(1,926)**
(52,874)	Recharges	(76,887)	56,568	(4,726)	30,317	(89)	**5,183**	(49,848)	**(44,665)**
(73,920)	Council tax	0	0	0	0	0	**0**	(74,455)	**(74,455)**
(41,205)	Business rates	0	0	0	0	0	**0**	(44,979)	**(44,979)**
(596,183)	**Total income**	**(404,540)**	**81,569**	**(26,329)**	**30,317**	**(89)**	**(319,072)**	**(250,500)**	**(569,572)**
201,395	Employee expenses	223,320	(45,453)	(8,340)	(29,247)	0	**140,280**	43,831	**184,111**
28,649	Premises	22,759	(7,652)	476	0	0	**15,583**	4,891	**20,474**
14,760	Transport	14,806	(5,319)	0	0	0	**9,487**	5,240	**14,727**
65,944	Supplies and services	59,431	(20,726)	0	(1,070)	0	**37,635**	15,849	**53,484**
223,007	Third party / transfer payments	239,885	(15,285)	0	0	0	**224,600**	14,975	**239,575**
16,685	Support services	17,657	(435)	16,634	0	0	**33,856**	2,158	**36,014**
2,476	Capital financing	733	(733)	0	0	0	**0**	191	**191**
81,980	Capital charges	30,500	16,493	0	0	0	**46,993**	19,958	**66,951**
(10,672)	Housing Revenue Account (HRA)	0	0	(14,855)	0	0	**(14,855)**	0	**(14,855)**
624,224	**Total operating expenses**	**609,091**	**(79,110)**	**(6,085)**	**(29,247)**	**0**	**493,579**	**107,093**	**600,672**
28,041	**Surplus or deficit on provision of services**	**204,551**	**2,459**	**(32,414)**	**0**	**(89)**	**174,507**	**(143,407)**	**31,100**

9. Dedicated Schools Grant

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

The grant can only be applied to meet expenditure included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2014, which provides for two elements: *Central expenditure*, which is a restricted range of services provided on a council-wide basis, and *Individual Schools Budget (ISB),* whereby each school is allocated a delegated budget share. Overspends and underspends on each element are required to be accounted for separately.

Details of the deployment of DSG receivable for 2015/16 are as follows:

	Central expenditure £000s	ISB £000s	Total £000s
Final DSG for 2015/16 before academy recoupment	20,979	111,861	132,840
Academy figure recouped for 2015/16	0	38,338	38,338
Total DSG after academy recoupment 2015/16	**20,979**	**73,523**	**94,502**
Plus: brought forward from 2014/15	2,828	0	**2,828**
Less: carry-forward to 2016/17 agreed in advance	0	0	**0**
Agreed initial budgeted distribution in 2015/16	**23,807**	**73,523**	**97,330**
In-year adjustments	987	0	**987**
Final budgeted distribution in 2015/16	**24,794**	**73,523**	**98,317**
Less: actual central expenditure	21,437	0	**21,437**
Less: actual ISB deployed to schools	0	73,523	**73,523**
Plus: local authority contribution for 2015/16	0	0	**0**
Carry-forward to 2016/17	**3,357**	**0**	**3,357**

10. Government and non-government grants

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

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

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

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

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

The Council has deviated from the Code in an immaterial way with regard to the treatment of unspent, non-conditional revenue grant income and contributions. The recommended treatment, defined within the Code of Practice, is to appropriate any income unspent at the year-end into an earmarked reserve. However, the Council has set a threshold of £100,000; any grants below this level are classified as receipts in advance (within creditors on the Balance Sheet; see also Note 6b). The reasons for this are operational: approval from Cabinet is required to appropriate funds from reserves, which is not practical for small amounts on a regular basis, and it would increase the complexity and reduce the transparency of the Council's budget monitoring processes. The value of the Code deviation was £0.838m in 2015/16 (£1.024m in 2014/15).

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

2014/15 £000s		2015/16 £000s
	a) General government grants not attributable to Services	
(64,059)	Revenue Support Grant	(47,767)
(9,684)	Top Up Grant	(9,869)
(7,424)	Other Grants	(8,151)
(81,167)		**(65,787)**
	b) Specific government grants attributable to Services	
(8,353)	Department of Communities and Local Government	(1,016)
(117,879)	Department for Education	(117,622)
(89,269)	Department for Work and Pensions	(88,344)
(15,832)	Public Health grant	(15,795)
(7,161)	Joint / other	(9,518)
(238,494)		**(232,295)**
(25)	**c) Specific non-government grants attributable to Services**	**0**
	d) Capital grant income not attributable to Services	
(750)	Department of Communities & Local Government	(1,152)
(6,224)	Department for Education	(2,321)
(671)	European Regional Development Fund	0
(8,896)	Other government grants	(6,015)
(1,163)	Other non-government grants	(904)
0	Other non-government contributions	0
(17,704)		**(10,392)**
(337,390)	**Total grants and government contributions**	**(308,474)**
	e) Other contributions and donations	
(41,056)	Other revenue contributions attributable to Services	(47,389)
(1,305)	Other capital contributions not attributable to Services	0
(307)	Donated assets not attributable to Services	(4,570)
(42,668)	**Total other contributions**	**(51,959)**

11. Operating leases

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

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

	31/03/15 £000s	31/03/16 £000s
Not later than one year	3,334	4,644
Later than one year and not later than five years	6,878	8,354
Later than five years	42,920	43,494
	53,132	**56,492**

12. Councillors' allowances

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

2014/15 £000s		2015/16 £000s
668	Basic allowance	697
365	Special responsibility allowance	382
19	Other allowances and expenses	32
1,052	**Total**	**1,111**

More information on the allowances scheme can be found on the Council's website[18].

13. External audit costs

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

2014/15 £000s		2015/16 £000s
172	Fees for external audit services carried out for the year	130
17	Fees for Public Sector Audit Appointments Ltd (PSAA) certification claims and returns	17
14	Other claims / returns	17
203		**164**

14. Officers' remuneration

The number of employees (including schools) whose remuneration (excluding pension contributions) was over £50,000 is summarised below. The table has been prepared including and excluding the effect of any redundancies taking place in 2015/16 to indicate the cost impact on senior staff:

Numbers of staff earning over £50,000				
Remuneration Band	**Number of Employees**			
	Including redundancies		Excluding redundancies	
	2014/15	**2015/16**	**2014/15**	**2015/16**
£50,000 - £54,999	37	40	35	33
£55,000 - £59,999	30	36	30	33
£60,000 - £64,999	27	25	23	26
£65,000 - £69,999	16	18	16	15
£70,000 - £74,999	13	10	12	9
£75,000 - £79,999	8	9	8	8
£80,000 - £84,999	4	1	3	1
£85,000 - £89,999	2	3	2	2
£90,000 - £94,999	3	8	3	6
£95,000 - £99,999	3	2	3	2

[18] See www.gateshead.gov.uk/Council%20and%20Democracy/Councillors-and-committees/MembersAllowancesScheme.aspx

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

Remuneration of senior employees 2015/16						
Post holder information	**Salary, fees & allowances** £	**Expenses allowances** £	**Loss of employment costs** £	**Non-cash benefits** £	**Pension contribution** £	**Total** **£**
Chief Executive, J Robinson	158,307	*13,563	0	99	24,854	**196,823**
Assistant Chief Executive (end date 31 March 2016)	112,569	0	76,510	0	120,952	**310,031**
Strategic Director, Corporate Resources	112,569	0	0	0	17,673	**130,242**
Strategic Director, Corporate Services and Governance	112,569	0	0	0	17,673	**130,242**
Strategic Director, Care, Wellbeing and Learning (end date 15 Jan 2016)	88,966	0	76,500	2,033	123,360	**290,859**
Strategic Director, Communities and Environment	112,569	0	0	0	17,673	**130,242**
Strategic Director, Transformation Programme (end date 31 July 2015)	37,523	0	56,368	0	139,066	**232,957**
Locality Director of Public Health	93,170	0	0	872	13,323	**107,365**
	828,242	**13,563**	**209,378**	**3,004**	**474,574**	**1,528,761**

* Returning Officer fees

Remuneration of senior employees 2014/15						
Post holder information	**Salary, fees & allowances** £	**Expenses allowances** £	**Loss of employment costs** £	**Non-cash benefits** £	**Pension contribution** £	**Total** **£**
Chief Executive, J Robinson	158,307	*14,303	0	4,152	24,854	**201,616**
Assistant Chief Executive	107,211	0	0	7,112	16,832	**131,155**
Strategic Director, Corporate Resources	107,211	0	0	0	17,420	**124,631**
Strategic Director, Corporate Services and Governance	112,569	0	0	4,601	17,673	**134,843**
Strategic Director, Care, Wellbeing and Learning	112,569	0	0	5,908	17,673	**136,150**
Strategic Director, Communities and Environment	112,569	0	0	2,220	17,673	**132,462**
Strategic Director, Transformation Programme	112,569	0	0	636	17,673	**130,878**
Locality Director of Public Health	91,800	0	0	740	12,852	**105,392**
	914,805	**14,303**	**0**	**25,369**	**142,650**	**1,097,127**

* Returning Officer fees

Termination benefits / Exit packages

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

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

The table below shows that the 2015/16 Statement of Accounts recognises a cost of £8.641m in relation to an estimated 206 compulsory redundancies (CRs) and 49 other redundancies. This includes a provision for anticipated CRs during 2016/17 based on expected savings, voluntary redundancies (VRs) and the non-renewal of fixed-term contracts. The cost includes redundancy payments to employees and strain on the fund costs payable to the appropriate pension fund:

2014/15				Exit package cost band	2015/16				
Number			Cost		Number				Cost
CRs	VRs	Total	£000s		CRs	VRs	Other	Total	£000s
0	90	90	702	£0 - £20,000	11	19	1	31	226
175	15	190	4,624	£20,001 - £40,000	193	5	0	198	6,200
0	7	7	339	£40,001 - £60,000	1	6	1	8	379
0	4	4	268	£60,001 - £80,000	1	7	0	8	549
0	6	6	534	£80,001 - £100,000	0	4	0	4	377
0	6	6	685	£100,001 - £150,000	0	3	0	3	355
0	1	1	186	£150,001 - £200,000	0	2	1	3	555
175	**129**	**304**	**7,338**	**Total**	**206**	**46**	**3**	**255**	**8,641**

15. Related party transactions

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

Central Government

The United Kingdom Government has significant influence over the general operations of the Council: it is responsible for providing the statutory framework within which the Council operates, and provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from Government departments are set out in the subjective analysis in Note 8 on reporting for resources allocation decisions, and are analysed in Note 10.

Councillors and senior officers

Elected councillors have direct control over the Council's financial and operating policies. The total of councillors' allowances paid in 2015/16 is shown in Note 12. During 2015/16, no works and services were commissioned from companies in which councillors had an interest, and the Council entered into no related party transactions with councillors. Details of councillors' interests are recorded in the Register of Councillors' Interests (updated annually); open to public inspection at the Civic Centre during office hours.

During 2015/16, no related party transactions were entered into with senior officers or their close family members.

Joint arrangements

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

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

The main joint arrangement identified during 2015/16 was the Tyne and Wear Archives and Museums Joint Committee. Its assets attributable to the Council have not been included on the Balance Sheet on materiality grounds.

Entities controlled or significantly influenced by the Council

Newcastle Airport

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. On 4th May 2001, the seven local authority shareholders of NIAL (the "LA7") created NIAL Holdings Limited, which is 51% owned by LA7 and 49% owned by AMP Capital Investors Limited following their purchase on 16th November 2012. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited (NALAHCL), a company wholly owned by the seven authorities. NALAHCL has a called up share capital of 10,000 shares with a nominal value of £1 each. The Council holds a 13.33% interest in NALAHCL, valued at £11.583m (£11.583m in 2014/15).The shares are not held for trading outside of the LA7.

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially change the valuation. The last valuation is based on the sale of shares to AMP Capital Investors Limited in 2012. As no such events have occurred during 2015/16 the valuation has remained unchanged.

Through its shares in NALAHCL the Council has an effective shareholding of 6.80% in NIAL (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of NIAL (registered number 2077766) is the provision of landing services for both commercial and freight operators. No dividend was received for the year ended 31st December 2015 (nil for the year ended 31st December 2014).

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

NIAL Group Limited made a profit before tax of £2.300m and a profit after tax of £4.556m for the year ended 31st December 2015. In the previous year, the Group made a profit before tax of £0.496m and a profit after tax of £0.277m.

Gateshead Trading Company

The Gateshead Trading Company Ltd is a wholly owned subsidiary the Council limited by shares. Its activities during 2015/16 included construction, design services and economic development. The company's turnover in 2015/16 was £1.060m (£1.603m in 2014/15).

The Gateshead Housing Company

The Gateshead Housing Company (TGHC) was formed in 2004 and is the arm's length management company for Gateshead Council which means that they manage and maintain the Council's housing stock. TGHC is paid a management fee for managing the Council's housing stock, which is agreed annually. In 2015/16, a management fee of £32.642m was paid through the HRA in relation to the repairs, maintenance, supervision and management of the housing stock (£34.217m in 2014/15).

In 2015/16, TGHC also received £1.0m for managing the Council's Decent Homes and housing regeneration projects.

Gateshead Regeneration Partnership

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

The Council has 50% control of this partnership. The first sites were transferred to GRP for development from Council ownership in March 2014. Construction is ongoing on the first tranche of sites at Bensham, Saltwell and Birtley, with 67 build completions during 2015/16. The Partnership is currently progressing work to develop the second tranche of sites.

16. Trading operations

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

2014/15 (Profits) / Losses £000s		2015/16 Income £000s	Expenditure £000s	(Profits) / Losses £000s
(2,429)	Construction	(45,180)	42,254	(2,926)
0	Cleaning of buildings	(3,583)	3,988	405
100	Security	(835)	1,047	212
(518)	School meals	(6,225)	5,878	(347)
(839)	Fleet	(7,629)	6,207	(1,422)
161	Civic restaurants	(919)	1,081	162
(3,525)		**(64,371)**	**60,455**	**(3,916)**

17. Property, plant and equipment

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

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

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

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

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

- All other classes of asset are measured at current value, determined as the amount that would be paid for the asset in its existing use.

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

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

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

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

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

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

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

Valuations are carried out by the Council's valuation officer, D Gillbanks BSc(Hons) FRICS, as at 1 April in the reporting period (with the exception of the energy from waste facility, valued externally by DTZ due to its specialist nature).

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

- **Depreciation** - IAS 16 *Property, Plant and Equipment*[19] requires depreciation to be provided for all non-current assets with a finite useful life (which is determined at the time of acquisition or revaluation) according to the following policy:

  - A full year's depreciation is charged on newly acquired assets in the year of acquisition, although assets in the course of construction are not depreciated until brought into use;
  - Depreciation is calculated using the straight-line method; and
  - Generally, assets are depreciated in accordance with the following estimate of useful lives:

Computers and other equipment	3-10 years
Vehicles (depending on make/model/use)	3-10 years
Buildings (depending on use/construction /condition)	15-50 years

[19] See http://www.ifrs.org/Documents/IAS16.pdf

- Infrastructure assets (excluding Millennium Bridge) 30 years
- Gateshead Millennium Bridge 120 years
- Council dwellings 50 years

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

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

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

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

- **Surplus Property**

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

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

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

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

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

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

Surplus property Fair value using:	Level 1 £000s	Level 2 £000s	Level 3 £000s	**Total** **£000s**
Residential Land	0	22,942	0	**22,942**
Offices	0	1,020	0	**1,020**
Total	0	**23,962**	0	**23,962**

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

	Other land and buildings at current value £000s	Buildings under finance lease at current value* £000s	Assets under construction at cost £000s	Vehicles, plant and equipment at cost £000s	Equipment under finance lease at cost £000s	Council dwellings at current value £000s	Infrastructure at cost £000s	Community assets at cost £000s	Surplus assets at fair value £000s	**Total** £000s
Cost or valuation										
Balance at 1 April 2014	**458,835**	**0**	**1,303**	**71,161**	**350**	**642,254**	**152,696**	**4,939**	**49,857**	**1,381,395**
Reclassifications	(429)	0	0	0	0	(4)	0	24	(852)	(1,261)
Additions	15,605	50,288	1,234	4,552	0	20,679	12,068	181	976	105,583
Donations	0	0	0	0	0	0	0	0	0	0
Disposals	(12,255)	0	0	(2,790)	0	(4,089)	0	0	(78)	(19,212)
Revaluation increase/(decrease) to Revaluation Reserve	7,558	8,245	0	0	0	2,003	0	(65)	54	17,795
Revaluation increase/(decrease) to Comprehensive I&E	(18,179)	0	0	0	0	(21,735)	0	(276)	(15)	(40,205)
Impairment Charged to Revaluation Reserve	(14)	0	0	0	0	0	0	0	0	(14)
Impairment Charged to Comprehensive I&E	(2,925)	0	0	0	0	(5,797)	0	0	0	(8,722)
Balance at 1 April 2015	**448,196**	**58,533**	**2,537**	**72,923**	**350**	**633,311**	**164,764**	**4,803**	**49,942**	**1,435,359**
Reclassifications	3,955	0	0	0	0	0	0	(50)	(3,957)	(52)
Additions	5,643	0	7,375	5,328	0	17,682	10,003	59	247	46,337
Donations	4,570	0	0	0	0	0	0	0	0	4,570
Disposals	(1,469)	0	0	(1,204)	0	(4,972)	0	0	(265)	(7,910)
Revaluation increase/(decrease) to Revaluation Reserve	17,533	0	0	0	0	(911)	0	0	2,034	18,656
Revaluation increase/(decrease) to Comprehensive I&E	(1,814)	0	0	0	0	(14,965)	0	0	(20,549)	(37,328)
Impairment Charged to Revaluation Reserve	(314)	0	0	0	0	(42)	0	0	(3,282)	(564)
Impairment Charged to Comprehensive I&E	(3,465)	0	0	0	0	(7,974)	0	0	(208)	(14,721)
Balance at 31 March 2016	**472,835**	**58,533**	**9,912**	**77,047**	**350**	**622,129**	**174,767**	**4,812**	**23,962**	**1,444,347**

* Refers to the Council's waste PFI facility

	Other land and buildings at current value	Buildings under finance lease at current value*	Assets under construction at cost	Vehicles, plant and equipment at cost	Equipment under finance lease at cost	Council dwellings at current value	Infrastructure at cost	Community assets at cost	Surplus assets at fair value	**Total**
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Accumulated Depreciation										
Balance at 1 April 2014	**(36,300)**	**0**	**0**	**(54,043)**	**(350)**	**(11,570)**	**(41,451)**	**0**	**(1,192)**	**(144,906)**
Reclassifications	217	0	0	0	0	0	1	(26)	(41)	151
Disposals	240	0	0	2,640	0	74	0	0	0	2,954
Depreciation written out to Revaluation Reserve on revaluation	8,381	0	0	0	0	699	0	10	205	9,295
Depreciation written out to Comprehensive I&E on revaluation	7,150	0	0	0	0	10,564	0	15	0	17,729
Depreciation	(13,711)	(2,337)	0	(5,479)	0	(11,400)	(4,513)	0	(424)	(37,864)
Depreciation written out to Revaluation Reserve on impairment	3	0	0	0	0	0	0	0	0	3
Depreciation written out to Comprehensive I&E on impairment	712	0	0	0	0	233	0	0	0	945
Balance at 1 April 2015	**(33,308)**	**(2,337)**	**0**	**(56,882)**	**(350)**	**(11,400)**	**(45,963)**	**(1)**	**(1,452)**	**(151,693)**
Reclassifications	(386)	0	0	0	0	0	0	0	463	77
Disposals	182	0	0	1,134	0	89	0		0	1,405
Depreciation written out to Revaluation Reserve on revaluation	9,645	0	0	0	0	325	0	0	77	10,047
Depreciation written out to Comprehensive I&E on revaluation	9,697	0	0	0	0	10,841	0	0	28	20,566
Depreciation	(15,742)	(2,337)	0	(5,318)	0	(11,197)	(4,923)	0	(40)	(39,557)
Depreciation written out to Revaluation Reserve on impairment	0	0	0	0	0	0	0	0	22	22
Depreciation written out to Comprehensive I&E on impairment	863	0	0	0	0	80	0	0	845	1,788
Balance at 31 March 2016	**(29,049)**	**(4,674)**	**0**	**(61,066)**	**(350)**	**(11,262)**	**(50,886)**	**(1)**	**(57)**	**(157,345)**

	Other land and buildings at fair value	Buildings under finance lease at fair value	Assets under construction at cost	Vehicles, plant and equipment at cost	Equipment under finance lease at cost	Council dwellings at fair value	Infrastructure at cost	Community assets at cost	Surplus assets	**Total**
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Net Book Value at 31/03/2015	**414,888**	**56,196**	**2,537**	**16,041**	**0**	**621,911**	**118,801**	**4,802**	**48,490**	**1,283,666**
Net Book Value at 31/03/2016	**443,786**	**53,859**	**9,912**	**15,981**	**0**	**610,867**	**123,881**	**4,811**	**23,905**	**1,287,002**

Revaluations

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

	Land and Buildings £000s	Council Dwellings £000s	Surplus Assets £000s	**Total Valuation £000s**
Assets valued 1 April 2015	213,771	622,129	23,695	**859,595**
Assets valued 1 April 2014	283,751	633,311	370	**917,432**
Assets valued 1 April 2013	192,570	630,684	5,183	**828,437**
Assets valued 1 April 2012	166,547	683,745	2,275	**852,567**
Assets valued 1 April 2011	249,140	677,000	33,911	**960,051**

Note that the Comprehensive Income and Expenditure Statement (CIES) includes (£31m) relating to the surplus / deficit on asset revaluations. These are items that do not go through the surplus / deficit on provision of service; rather, they are charged to *Other Comprehensive Income and Expenditure* and reversed in the Movement in Reserves Statement. In addition, the CIES (within *Cost of Services*) also includes (£13m) relating to in-year reversals of previous revaluation losses within *Other Land and Buildings* and (£0.7m) relating to in-year reversals of previous revaluation losses within *Council Dwellings*.

18. Heritage assets

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

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

- **Civic regalia:** These items are reported in the Balance Sheet at insurance valuation which is based on market values and is reviewed annually. The collection is relatively static and acquisitions and donations are rare. Where they do occur they are initially recognised at cost and donations are recognised at valuation with reference to appropriate commercial markets.
- **Museum collections:** Any items over £10,000 are reported in the Balance Sheet at insurance valuation (2012/13 valuation, reviewed in 2015/16) which is based on market values and is reviewed annually. Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation with reference to appropriate commercial markets for the paintings using the most relevant and recent information from sales at auctions.
- **Public artwork:** Any items over £10,000 are reported in the Balance Sheet (2012/13 valuation, reviewed in 2015/16) for any significant items where possible, or by valuations provided by the Council's Public Art Curator, which are informed by commercial markets and the estimated replacement cost. 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.

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

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

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

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

Note information: the Council has identified a total of 374 heritage assets, held to increase the knowledge, understanding and appreciation of the Council's history and local area. These have been split into three distinct categories as follows:

- **Civic regalia:** the collection includes a number of artefacts such as the Mayoral chains, the Mace and various items of silverware.
- **Museum collections:** the museum collections include paintings (both oil and watercolour), sculptures and other artefacts and are managed by Tyne and Wear Archives and Museums on behalf of the Council. The collection includes two paintings by Hans Schäufelein valued at £1.7m on display at the Shipley Art Gallery[20]; a full list of exhibition listings and the Tyne and Wear Museums' access policy is available on their website.
- **Public artwork:** the collection includes a number of sculptures on display throughout Gateshead, including the Angel of the North.

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

	Public artwork £000s	Civic regalia £000s	Museum collections £000s	Total £000s
Cost or Valuation 2014/15:				
1 April 2014	6,761	306	13,862	20,929
Reclassifications	272	0	0	272
Additions	5	0	308	313
Disposals	0	0	25	25
31 March 2015	**7,038**	**306**	**14,195**	**21,539**
Cost or Valuation 2015/16:				
1 April 2015	7,038	306	14,195	21,539
Additions	19	0	30	49
Disposals	(129)	0	0	(129)
Upward Revaluations	328	73	(26)	375
31 March 2016	**7,256**	**379**	**14,199**	**21,834**

19. Capital commitments and capital financing

Redemption of debt: accounting policy

The Council is required by statute to set aside a minimum revenue provision (MRP; *see also Note 6a*), for the repayment of debt for General Fund services. Provision is made for principal repayments by charging a MRP calculated in accordance with CIPFA's Prudential Code (which follows the provisions of the Local Government Act 2003[21]).

Capital commitments

At 31 March 2016, the Council had £14.7m of outstanding (budgeted) capital commitments for the construction or enhancement of property, plant and equipment (£10.3m in 2014/15). These relate to the completion of the following schemes:

[20] See http://www.twmuseums.org.uk/shipley-art-gallery.html
[21] See http://www.legislation.gov.uk/ukpga/2003/26/contents

- Investment in energy network £8.7m
- Investment in new school construction £5.5m
- Investment in capital loans for affordable housing £0.5m

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):

2014/15 £000s		2015/16 £000s
644,254	**Opening capital financing requirement**	**698,809**
	Capital investment	
55,295	Property, plant and equipment	50,907
312	Heritage assets	50
443	Intangible assets	721
60	Assets held for sale	0
5,690	Revenue expenditure funded from capital under statute	4,612
1,700	Long-term debtors relating to capital transactions	2,000
50,288	Acquisition of PFI assets	0
	Sources of finance	
(3,323)	Capital receipts	(1,324)
(38,278)	Government grants and other contributions	(36,326)
	Sums set aside from revenue:	
(1,770)	Direct revenue contributions	(1,389)
(15,862)	MRP/loans fund principal	(16,245)
698,809	**Closing capital financing requirement**	**701,815**
	Explanation of movements in year:	
(5,567)	Increase/(decrease) in underlying need to borrowing (supported by government financial assistance)	(5,343)
12,558	Increase in underlying need to borrowing (unsupported by government financial assistance)	11,458
47,564	Assets acquired under PFI/PPP contracts	(3,109)
54,555	**Increase/(decrease) in capital financing requirement**	**3,006**

20. Public finance initiative (PFI) arrangements

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

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

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

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the *Financing and Investment Income and Expenditure* line in the Comprehensive Income and Expenditure Statement;

- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement; and
- the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).

PFI Schemes in place

Schools PFI

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

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

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

Waste PFI

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

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

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

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

a) Analysis of movements in PFI asset values

31/03/15 £000s			31/03/16 £000s	
Schools	**Waste**		**Schools**	**Waste**
21,656	**0**	**Opening values**	**21,279**	**58,401**
71	57,372	Additions	44	0
0	0	Transfers	17	0
0	3,439	Downward revaluations	0	0
0	0	Upward revaluations	3,399	0
(448)	(2,410)	Depreciation	(567)	(2,410)
21,279	**58,401**	**Closing values**	**24,172**	**55,991**

b) Analysis of movements in PFI liabilities

The following transactions were processed during 2015/16:

31/03/15 £000s Schools	31/03/15 £000s Waste		31/03/16 £000s Schools	31/03/16 £000s Waste
1,340	3,936	Services	1,200	3,781
0	388	Lifecycle	0	397
656	9,152	Capital Repayment	699	2,410
1,709	1,035	Interest	1,666	993
952	117	Contingent Rent	961	128
4,657	**14,628**	**Total payment**	**4,526**	**7,709**
(5,057)	(1,805)	PFI grant income receivable (excluding academy schools)	(5,057)	(1,805)
2,167	0	Grant attributable to academy / diocesan schools	2,167	0
1,767	**12,823**	**Net payment**	**1,636**	**5,904**

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

31/03/15 £000s Schools	31/03/15 £000s Waste		31/03/16 £000s Schools	31/03/16 £000s Waste
(25,808)	**0**	**Opening values**	**(25,152)**	**(48,220)**
0	(57,372)	Additions	0	0
656	9,152	Repayment of capital	699	2,410
(25,152)	**(48,220)**	**Closing values**	**(24,453)**	**(45,810)**

c) Analysis of unitary charge payments outstanding

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

	Repayment of liability		Interest payment		Service charges		Total
	Schools £000s	Waste £000s	Schools £000s	Waste £000s	Schools £000s	Waste £000s	£000s
– within 1 year	746	2,183	1,619	943	2,198	4,153	**11,842**
– between 1 and 5 years	3,510	8,216	5,949	3,327	9,179	17,339	**47,520**
– between 5 and 10 years	5,865	9,482	5,960	3,242	12,418	23,373	**60,340**
– between 10 and 15 years	8,082	9,025	3,743	2,323	13,597	24,883	**61,653**
– between 15 and 20 years	6,250	9,867	845	1,341	6,553	25,334	**50,190**
– between 20 and 25 years	0	7,037	0	303	0	14,697	**22,037**
	24,453	**45,810**	**18,116**	**11,479**	**43,945**	**109,779**	**253,582**

Note that the value of contingent rents (rents that are not fixed – in this case, those due to a general increase in prices[22]) within the arrangement were as follows:

	Schools £000s	Waste £000s
2014/15 value	952	117
2015/16 value	961	128

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

[22] The Schools PFI contract is inflated annually by RPIX, the retail price index excluding mortgage payments

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.

Waste

None.

21. Cash and cash equivalents

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

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

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

31/03/15 £000s		31/03/16 £000s
110	Cash held by officers	64
(5,008)	Bank overdraft	(7,118)
40,210	Short-term deposits	28,603
35,312	**Total cash and cash equivalents**	**21,549**

22. Debtors

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

31 March 2015 £000s Less than 1 year	31 March 2015 £000s More than 1 year		31 March 2016 £000s Less than 1 year	31 March 2016 £000s More than 1 year
4,803	0	Central government bodies	6,271	0
11,670	0	NHS bodies	6,455	0
8,399	0	Other local authorities	8,192	0
1,276	0	Other public bodies	1,218	0
29,637	18,016	Bodies external to general government	36,646	19,502
55,785	**18,016**		**58,782**	**19,502**

The debtors' balance represents the amount due to the Council from customers or grants outstanding from funding bodies. A bad debt provision of £11.189m is held within the b*odies external to general government* category above to provide against the risk of default on debt outstanding from trade, or non-government, debtors (2014/15: £10.955m); the figure has increased by £0.234m following review of required provisions.

23. Creditors

These amounts represent sums owed to a number of sources, such as other local authorities and government departments. It also includes income received in advance, such as council tax relating to 2016/17:

31 March 2015 £000s Less than 1 year	31 March 2015 £000s More than 1 year		31 March 2016 £000s Less than 1 year	31 March 2016 £000s More than 1 year
(9,523)	0	Central government bodies	(4,874)	0
(5,742)	0	NHS bodies	(2,007)	0
(5,797)	0	Other local authorities	(6,343)	0
(1,455)	0	Other public bodies	(1,962)	0
(50,524)	(70,590)	Bodies external to general government	(46,675)	(69,428)
(73,041)	**(70,590)**		**(61,861)**	**(69,428)**

24. Provisions and contingent liabilities

Provisions

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

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

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

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

Movements in provisions during 2015/16 were as follows:

Balance 31/03/15 £000s		Receipts £000s	Payments £000s	New provision £000s	Reversals £000s	Balance 31/03/16 £000s
(1,656)	Business rate appeals - provision for refunds following successful appeals	0	1,475	(1,475)	0	(1,656)
(4,223)	Future redundancies - provision for costs associated with known redundancies	0	4,223	(5,971)	0	(5,971)
(5,879)	**Short-term provisions**	**0**	**5,698**	**(7,446)**	**0**	**(7,627)**
(30)	Sundry	0	0	0	30	0
(5,465)	Insurance - provision for costs associated with future insurance claims against the Council	(4,408)	2,885	(1,079)	2,676	(5,391)
(5,495)	**Long-term provisions**	**(4,408)**	**2,885**	**(1,079)**	**2,706**	**(5,391)**
(11,374)	**Total provisions**	**(4,408)**	**8,583**	**(8,525)**	**2,706**	**(13,018)**

Contingent liabilities

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

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

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

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

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

25. Employee benefits

Post-employment benefits (pensions)

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

Employees of the Council are members of two main pension schemes:

a. Defined contribution plan: Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, which is administered by the Teachers' Pensions Agency (TPA)[23]. It provides teachers with defined benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of member's pensionable salaries.

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

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

In 2015/16, the Council paid £6.161m to the TPA in respect of teachers' retirement benefits, representing 14.1% of pensionable pay to August 2015 and 16.4% (plus a 0.08% levy) from September 2015 (the figures for 2014/15 were £5.512m and 9.4%) with an employer cost cap of 10.9%. In addition, the Council is responsible for all pension payments relating to added years it has awarded, together with related increases. In 2015/16, these amounted to £3.288m, representing 8.0% of pensionable pay (£3.619m and 6.2% in 2014/15).

b. Defined benefit plan: Tyne and Wear Pension Fund

The Tyne and Wear Pension Fund[24], part of the Local Government Pension Scheme, is administered by South Tyneside Council. This is a funded, defined benefit final salary scheme, meaning that the Council and employees pay contributions into the fund calculated at a level estimated to balance the liabilities with investment assets:

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

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

- Service cost comprising:
    - current service cost
    - past service cost
    - net interest on the net defined benefit liability / asset
- Re-measurements comprising:
    - return on plan assets
    - actuarial gains and losses
- Contributions paid to the pension fund

In relation to retirement benefits, statutory provisions require the General Fund 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

[23] See www.teacherspensions.co.uk/
[24] See www.twpf.info

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

In 2015/16, the Council paid £33.466m (£30.397m in 2014/15) to the Pension Fund in respect of pension contributions, representing 15.7% of pensionable pay (15.7% in 2014/15) and early retirement strain on the fund payments.

The scheme is accrued in accordance with the requirements of International Accounting Standard 19 *Employee Benefits*[25] (IAS 19). This accounts for retirement benefits when they are committed to be given, even if the actual giving is many years into the future. IAS 19 also requires the inclusion of the Council's attributable share of the fund's assets and liabilities. Further information on the Tyne and Wear Pension Fund can be found in their Annual Report. This is available upon request from South Tyneside Council.

Transactions relating to retirement benefits

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

Charges to the Comprehensive Income & Expenditure Statement				
	Funded liabilities		**Unfunded liabilities**	
	31/03/15 £m	**31/03/16 £m**	**31/03/15 £m**	**31/03/16 £m**
Comprehensive Income & Expenditure Statement (CIES)				
Cost of Services:				
Current service cost	22.24	25.64	0.00	0.00
Past service cost (including curtailments)	0.80	3.68	0.57	0.00
Settlement cost	(2.02)	0.00	0.00	0.00
Financing and Investment Income and Expenditure:				
Interest on net defined benefit liability/(asset)	14.98	12.89	3.94	3.06
Pension expense charged to *Surplus/Deficit on Provision of Services*	**36.00**	**42.21**	**4.51**	**3.06**
Pension expense charged to *Other Comprehensive Income and Expenditure*:				
Re-measurement of net defined benefit liability:				
- Return on plan assets	(59.69)	12.91	0.00	0.00
- Actuarial (gains)/losses due to:				
changes in financial assumptions	114.83	(47.30)	7.49	(3.23)
liability experience	(7.02)	(11.69)	(0.94)	(1.75)
Total amount charged to *Other Comprehensive Income and Expenditure*	**48.12**	**(46.08)**	**6.55**	**(4.98)**
Total amount recognised charged to the CIES	**84.12**	**(3.87)**	**11.06**	**(1.92)**

The total amount charged to *Other Comprehensive Income and Expenditure* (funded and unfunded) totalled £51.06m, as disclosed in the Comprehensive Income and Expenditure Statement; the cumulative actuarial loss recognised to 31 March 2016 was £340.82m.

[25] See www.ifrs.org/Documents/IAS19.pdf

Movement in Reserves Charges				
	Funded liabilities		Unfunded liabilities	
	31/03/15 £m	31/03/16 £m	31/03/15 £m	31/03/16 £m
Movement in Reserves Statement				
Net charges made for retirement benefits in accordance with the Code	7.65	10.72	(1.16)	(2.46)
Actual amount charged against the General Fund for pensions in the year				
Employer contributions payable to the scheme	28.35	31.49		
Retirement benefits payable to pensioners			5.67	5.52

Assets and liabilities in relation to retirement benefits

Reconciliation of the present value of Fund liabilities (defined benefit obligation)				
	Funded Liabilities		Unfunded Liabilities	
	2014/15 £m	2015/16 £m	2014/15 £m	2015/16 £m
Opening defined benefit obligation at 1 April	**1,115.35**	**1,259.33**	**96.17**	**101.56**
Current service cost	22.24	25.64	0.00	0.00
Interest expense on defined benefit obligation	47.35	39.81	3.94	3.06
Contributions from employees (Fund participants)	6.75	6.73	0.00	0.00
Re-measurement (gains) and losses:				
- Actuarial (gains)/losses on liabilities:				
financial assumptions	114.83	(47.30)	7.49	(3.23)
experience	(7.02)	(11.69)	(0.94)	(1.75)
Net benefits paid out	(35.70)	(38.02)	(5.67)	(5.52)
Past service cost (including curtailments)	0.80	3.68	0.57	0.00
Settlements (liabilities extinguished)	(5.27)	0.00	0.00	0.00
Closing defined benefit obligation at 31 March	**1,259.33**	**1,238.18**	**101.56**	**94.12**

Reconciliation of fair value of the scheme assets:

Reconciliation of the movements in the fair value of Fund assets				
	Funded Liabilities		Unfunded Liabilities	
	2014/15 £m	2015/16 £m	2014/15 £m	2015/16 £m
Opening fair value of Fund assets	**752.92**	**841.13**	**0.00**	**0.00**
Interest income on assets	32.37	26.92	0.00	0.00
Re-measurement gains and (losses) on assets	59.69	(12.91)	0.00	0.00
Employer contributions	28.35	31.49	5.67	5.52
Employee contributions	6.75	6.73	0.00	0.00
Net benefits paid out	(35.70)	(38.02)	(5.67)	(5.52)
Settlements	(3.25)	0.00	0.00	0.00
Closing fair value of Fund assets	**841.13**	**855.34**	**0.00**	**0.00**

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

Actual return on assets	2014/15 £m	2015/16 £m
Interest income on assets	32.37	26.92
Re-measurement gain / (loss) on assets	59.69	(12.91)
Actual return on assets	**92.06**	**14.01**

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

Asset allocation	31/03/15		31/03/16	
	Total	Quoted	Unquoted	Total
Equity investments	66.4%	57.5%	8.6%	66.1%
Property	9.5%	0.0%	10.4%	10.4%
Government bonds	3.7%	3.7%	0.0%	3.7%
Corporate bonds	11.7%	11.6%	0.0%	11.6%
Cash	2.4%	2.6%	0.0%	2.6%
Other assets	6.3%	3.1%	2.5%	5.6%
	100.0%	**78.5%**	**21.5%**	**100.0%**

Scheme history of gains and losses

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

Pension assets and liabilities recognised in the Balance Sheet	2014/15 £m	2015/16 £m
Funded:		
Fair value of Fund assets	841.13	855.34
Present value of the funded defined benefit obligation	(1,259.33)	(1,238.18)
	(418.20)	(382.84)
Unfunded:		
Present value of the unfunded defined benefit obligation	(101.56)	(94.12)
Asset / (liability) recognised on Balance Sheet	**(519.76)**	**(476.96)**

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 2017 are estimated to be £28.86m. In addition, strain on the fund contributions may be required. It is also expected that the Council will pay £5.52m directly to beneficiaries.

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

Active members	37%
Deferred pensioners	11%
Pensioners	52%

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 Hewitt 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 as at 31 March 2013.

A building block approach is employed in determining the rate of return on fund assets. Historic markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out in the assumption table below. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the fund at 31 March 2016:

Principal assumptions				
	Funded liabilities		Unfunded liabilities	
	14/15	15/16	14/15	15/16
Financial assumptions (% per annum)				
Discount rate for Fund liabilities	3.2%	3.4%	3.1%	3.4%
Rate of inflation - RPI	2.9%	2.9%	2.9%	2.9%
Rate of inflation - CPI	1.8%	1.8%	1.8%	1.8%
Rate of increase to pensions in payment	1.8%	1.8%	1.8%	1.8%
Rate of increase to deferred pensions	1.8%	1.8%	N/A	N/A
Rate of general increase in salaries	3.3%	3.3%	N/A	N/A
Mortality assumptions				
Longevity at 65 for current pensioners:				
Men	23.1	23.2	23.1	23.2
Women	24.7	24.8	24.7	24.8
Longevity at 65 for future pensioners (currently aged 45):				
Men	25.1	25.3	N/A	N/A
Women	27.0	27.1	N/A	N/A
Commutation 2015/16 and 2014/15: Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 75% of the permitted maximum.				

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 2016 and the projected service cost for the year ending 31 March 2017 is set out below:

Sensitivity analysis		
Funded LGPS benefits		
Discount rate assumption:		
Adjustment to discount rate	**+0.1% p.a.**	**-0.1% p.a.**
Present value of total obligation (£m)	1,215.7	1,261.0
% change in present value of total obligation	-1.8%	1.8%
Projected service cost (£m)	24.08	25.74
Approximate % change in projected service cost	-3.3%	3.4%
Rate of general increase in salaries:		
Adjustment to salary rate increase	**+0.1% p.a.**	**-0.1% p.a.**
Present value of total obligation (£m)	1,244.2	1,232.2
% change in present value of total obligation	0.5%	-0.5%
Projected service cost (£m)	24.90	24.90
Approximate % change in projected service cost	0.0%	0.0%
Rate of increase to pensions in payment and deferred pensions assumption and rate of revaluation of pension accounts:		

Adjustment to pension increase rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligation (£m)	1,254.9	1,221.7
% change in present value of total obligation	1.4%	-1.3%
Projected service cost (£m)	25.74	24.08
Approximate % change in projected service cost	3.4%	-3.3%
Post retirement mortality assumption:		
Adjustment to mortality age rating assumption*	**- 1 year**	**+ 1 year**
Present value of total obligation (£m)	1,271.1	1,205.2
% change in present value of total obligation	2.7%	-2.7%
Projected service cost (£m)	25.75	24.05
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

Discretionary benefits

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

26. Financial instruments

a. Accounting policies

Financial assets

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

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

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

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

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

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

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

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

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

Changes in fair value are balanced by an entry in the Available for Sale Reserve and the gain/loss is recognised in the *Surplus or deficit on revaluation of available for sale financial assets*. The exception is where impairment losses have been incurred – these are debited to the *Financing and investment income and expenditure* line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the *Financing and investment income and expenditure* line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the *Financing and investment income and expenditure* line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available for Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

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.

b. Nature and extent of risk arising from financial instruments

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

- Credit risk: the possibility that other parties might fail to pay amounts due to the Council;

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

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

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

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

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

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

Credit risk: Credit risk arises from deposits with banks, building societies, other local authorities and the government's Debt Management Office[26], 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 Capita Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and 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
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

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

As at 31 March 2016, £40.000m (43.0%) of the Council's deposits were held with financial institutions domiciled outside the UK:

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

Deposits outside the UK				
	2014/15		2015/16	
Country of Domicile	Amount £m	%	Amount £m	%
Singapore	10.000	11.0	5.000	11.0
Canada	0.000	0.0	10.000	5.0
Germany	0.000	0.0	15.000	11.0
Sweden	15.000	16.0	0.000	16.0
Australia	5.000	5.0	10.000	0.0
	30.000	**32.0**	**40.000**	**43.0**

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

Gross amounts due to the Council from financial assets				
2014/15		2015/16		
Net value £m		Gross value £m	Impairment value £m	Net value £m
91.256	Deposits with financial institutions	93.343	(0.026)	93.317
18.016	Long-term debtors	19.502	0.000	19.502
42.822	Debtors	50.856	(7.568)	43.288

The debtors' balance represents the amount due to the Council from customers (excluding council tax and business rates arrears and amounts owed by HMRC). A bad debt provision of £7.568m (excluding council tax and business rates) is held on the Balance Sheet to provide against the risk of default on debt outstanding (£7.336m in 2014/15).

In addition, the Council's Balance Sheet at 31 March 2016 held £60.361m (short-term) and £69.428m (long-term) relating to gross amounts owed for financial liabilities (£67.244m short-term and £70.590m long-term in 2014/15), representing amounts owed to customers (excluding HMRC, council tax and business rates). No impairment was required to this figure.

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

Spread of credit risk		
2014/15 £m	Rating	2015/16 £m
51.256	AAA	28.317
30.000	AA-	40.000
0.000	A+	5.000
10.000	A	20.000
91.256	**Total (excluding impaired investments)**	**93.317**

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

The Council has ready access to borrowing from the money markets to cover any day-to-day cash flow need, and the Public Work Loans Board (PWLB) and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government

Finance Act 1992[27], 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 2015, all of the Council's deposits were due to mature within 364 days.

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

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

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

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

Maturity profile				
Maturity period	Approved limits %	31/3/15 %	Approved limits %	31/3/16 %
< 1 year	20	10.13	20	10.39
1 – 2 years	20	7.29	20	10.34
2 – 5 years	60	21.32	60	19.30
5 – 10 years	60	11.91	60	7.94
+ 10 years	90	49.35	90	52.03

Market risk

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

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

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

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

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

Interest rate sensitivity analysis		
2014/15 £m		**2015/16 £m**
0.373	Increase in interest payable on variable rate borrowing	0.224
(0.309)	Increase in interest receivable on variable rate investments	(0.225)
0.064	**Impact on the (surplus)/deficit**	**(0.001)**
(0.119)	Decrease in fair value of fixed rate investments	(0.149)
100.215	Decrease in the fair value of fixed rate borrowing	107.144

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

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

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

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

c. Financial instruments gains and losses

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

Financial instrument gains and losses		
2014/15 £000s		**2015/16 £000s**
(1,516)	Interest and investment income	(1,911)
26,979	Interest payable and similar charges	27,250
25,463	**Total**	**25,339**

d. Financial instrument balances

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

Financial instrument balances	Short-term		Long-term	
	31/3/15 £000s	**31/3/16 £000s**	**31/3/15 £000s**	**31/3/16 £000s**
Financial liabilities at amortised cost	(67,729)	(70,463)	(544,319)	(553,188)
Total borrowing	**(67,729)**	**(70,463)**	**(544,319)**	**(553,188)**
Loans and receivables	92,260	93,707	0	0
Available-for-sale assets:				
Unquoted equity investment	0	0	12,077	12,367
Total investments	**92,260**	**93,707**	**12,077**	**12,367**

Analysis of financial liabilities at amortised cost

Total outstanding at 31 March 2015 £000s	Analysis of financial liabilities at amortised cost	Interest rates payable	Total outstanding at 31 March 2016 £000s
	Source of loan		
(486,158)	Public Works Loans Board	2.80% - 13.75%	(502,786)
(125,890)	Other loan instruments	1.05% - 4.52%	(120,865)
(612,048)	**Total financial liabilities at amortised cost**		**(623,651)**
	An analysis of loan by maturity is:		
(67,729)	**Short-term borrowing**		**(70,463)**
(44,130)	Maturing in 1 – 2 years		(63,847)
(129,151)	Maturing in 2 – 5 years		(119,157)
(72,137)	Maturing in 5 – 10 years		(49,003)
(298,901)	Maturing in more than 10 years		(321,181)
(544,319)	**Long-term borrowing**		**(553,188)**
(612,048)	**Total borrowing**		**(623,651)**

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

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

- For loans from the PWLB payable, new borrowing rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures. As the Debt Management Office provides a transparent approach allowing the exit cost to be calculated without undertaking a repayment or transfer it is appropriate to disclose the exit price. As an alternative, we have assessed the cost of taking a new loan at PWLB new loan rates applicable to existing loans on Balance Sheet date (which could be viewed as a proxy for transfer value);
- For non-PWLB loans payable, PWLB prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- 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 Capita Asset Services. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments in the future in today's terms as at the balance sheet date. This is a widely accepted valuation technique commonly used by the public sector. Our accounting policy uses new borrowing rates to discount the future cash flows.

The fair value of the total financial liabilities is greater than the carrying amount because the Council's loans portfolio includes a number of fixed rate loans where the interest rate payable is higher than rates available for similar loans in the market at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2016) arising from a commitment to pay interest to lenders above current market rates.

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

Fair value of assets and liabilities carried at amortised cost				
	31 March 2015		31 March 2016	
	Carrying amount £000s	Fair value £000s	Carrying amount £000s	Fair value £000s
PWLB debt	(486,158)	(593,047)	(502,786)	(614,814)
Non-PWLB debt	(125,890)	(150,593)	(120,865)	(150,788)
Total financial liabilities	**(612,048)**	**(743,640)**	**(623,651)**	**(765,602)**
Market loans < 1 year	52,050	52,073	65,104	65,159
Total financial assets	**52,050**	**52,073**	**65,104**	**65,159**

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

Reconciliation of Balance Sheet items				
	Principal £000s	Impairment £000s	Accrued interest £000s	Total £000s
Short term investments 2015/16:				
Fixed-term deposits	65,000	0	104	65,104
Impaired investment	26	(26)	0	0
	65,026	**(26)**	**104**	**65,104**
Short term deposits (cash equivalents)	28,567	0	36	28,603
Total	**93,593**	**(26)**	**140**	**93,707**
Short term investments 2014/15:				
Fixed-term deposits	52,000	0	50	52,050
Impaired investment	137	(137)	0	0
	52,137	**(137)**	**50**	**52,050**
Short term deposits (cash equivalents)	40,183	0	27	40,210
Total	**92,320**	**(137)**	**77**	**92,260**

27. Authorisation of Accounts for issue

The Council's Statement of Accounts for the financial year ended 31 March 2016 will be approved by the Accounts Committee and authorised for issue during 2016.

Signed:

Date:

Darren Collins
Strategic Director, Corporate Resources

Signed:

Date:

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

Part 3: Supplementary Statements

Housing Revenue Account (HRA)

HRA Income and Expenditure Statement

2014/15 £000s		2015/16 £000s	Note
	Expenditure:		
17,660	Repairs and maintenance	19,230	
15,718	Supervision and management	17,486	
4,520	Special services	4,477	
3,099	Rents, rates, taxes and other charges	2,761	
28,311	Depreciation and downward revaluation of non-current assets	23,465	5 & 6
335	Debt management charges	339	
520	Increased provision for bad or doubtful debts	393	
70,163		**68,151**	
	Income:		
(75,656)	Dwelling rents (gross)	(76,942)	
(1,512)	Non-dwelling rents (gross)	(1,518)	
(2,828)	Charges for services and facilities	(3,212)	
(289)	Leaseholders charges for services and facilities	(296)	
(985)	Contributions towards expenditure	(1,038)	
(81,270)		**(83,006)**	
(11,107)	**Net Cost of HRA Services as included in the Council's Comprehensive Income and Expenditure Statement**	**(14,855)**	
435	HRA services' share of Corporate and Democratic Core	587	
(10,672)	**Net Income for HRA Services**	**(14,268)**	
	HRA share of the operating income and expenditure included in the Council's Comprehensive Income and Expenditure Statement:		
(948)	(Gain) or loss on sale of HRA non-current assets	(751)	
16,672	Interest payable and similar charges	16,239	
(97)	HRA Interest received and investment income	(161)	
515	Pension interest cost and expected return on pension assets	440	
0	Capital grants and contributions		
5,470	**(Surplus)/Deficit for the year on HRA services**	**1,499**	

Movement on the HRA Statement

2014/15 £000s		2015/16 £000s	Note
18,008	**Balance on the HRA at 1 April 2015**	**19,885**	
(5,470)	Surplus / (Deficit) for the year on HRA Income and Expenditure Statement	(1,499)	
7,347	Adjustments between accounting basis and funding basis under regulations	5,723	1
1,877	Net increase before transfers to reserves	4,224	
1,877	**Increase in year on the HRA**	**4,224**	
19,885	**Balance on the HRA at 31 March 2016**	**24,109**	

Notes to the HRA

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

2014/15 £000s		2015/16 £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:	
(16,745)	▪ Downward revaluation of non-current assets	(12,049)
1	▪ Accumulated Absences Account adjustment (IAS19)	2
948	▪ Gain/ (loss) on sale of HRA non-current assets	741
(607)	▪ HRA share of contributions to or from the pensions reserve	(633)
9,044	▪ Capital expenditure funded by the HRA	6,204
11,566	▪ Transfer to the Major Repairs Reserve (see Note 7)	11,416
(11,566)	▪ Transfer from the capital adjustment account	(11,416)
(7,359)		(5,735)
	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:	
12	▪ Amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	12
(7,347)	**Total adjustments between accounting basis and funding basis under the legislative framework**	**(5,723)**

2. Housing stock and Balance Sheet valuation

The number of council dwellings by type and valuation at 31 March 2016 was as follows:

01/04/15	Lettable stock numbers:	31/03/16
11,361	Houses	11,226
5,235	Flats	5,213
3,096	Bungalows	3,094
19,692		**19,533**
£000s	**Values:**	**£000s**
621,911	Council dwellings	610,867
5,429	Other land and buildings	5,368
65	Vehicle, plant, furniture and equipment	0
627,405	**Total Balance Sheet value of land, houses and other property in the HRA**	**616,235**

* It should be noted that opening values are presented prior to any revaluations carried out during 2015/16 and taking effect from 1 April 2015.

3. Vacant possession value

The vacant possession value of the HRA dwellings at 1 April 2015 was £1.595bn. However, the Existing Use Value for Social Housing (EUV-SH) at the same date was £0.622bn. The EUV-SH reflects the valuation for a property if it was sold with sitting tenants paying rents at less than open market rents and tenant's rights including the right to buy.

4. Capital expenditure

A summary of total capital expenditure on land, houses and other property within the HRA during 2015/16, broken down according to the sources of funding was as follows:

2014/15 £000s		2015/16 £000s
	Expenditure:	
20,679	Council dwellings	17,682
45	Other land and buildings	98
75	Vehicle, plant, furniture and equipment	0
20,799	**Total capital expenditure**	**17,780**
	Funded by:	
(114)	Borrowing	(160)
(75)	Capital grants	0
(9,044)	Direct revenue financing	(6,204)
(11,566)	Major Repairs Reserve	(11,416)
(20,799)	**Total funding**	**(17,780)**

5. Depreciation

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

2014/15 £000s		2015/16 £000s
11,400	Council dwellings	11,197
151	Other land and buildings	219
15	Vehicles, plant, furniture and equipment	0
11,566	**Total**	**11,416**

6. Downward revaluations

The Council values its dwellings every year using the Existing Use Value for Social Housing basis. In 2015/16, the valuation process resulted in a charge to the HRA of £12.049m, as shown below:

2014/15 £000s		2015/16 £000s
	Revaluation losses recognised in the HRA Income and Expenditure Statement:	
11,102	Council dwellings	4,125
79	Other land and buildings	30
	Impairments recognised in the HRA Income and Expenditure Statement:	
5,564	Council dwellings	7,894
0	Other land and buildings	0
16,745	**Total**	**12,049**

7. Major Repairs Reserve

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

2014/15 £000s	**The movement on the Council's Major Repairs Reserve (MRR) is as follows:**	2015/16 £000s
0	Opening Balance at 1 April	0
(11,566)	Amounts transferred to MRR during the year:	(11,416)
11,566	Capital expenditure on land, houses & other property	11,416
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*:

2014/15 £000s		2015/16 £000s
	Credit:	
(97)	Interest on notional cash balance	(161)
(16,745)	Impairments adjustment	(12,049)
(16,842)		**(12,210)**
	Debit:	
16,672	Interest on loans	16,239
11,566	Depreciation	11,416
335	Debt management expenses	339
12	Premiums for early repayment of debt	0
16,745	Impairment charges	12,049
45,330		**40,043**
28,488	**Total item 8 debit**	**27,833**

Collection Fund Statement

2014/15 £000s		2015/16 £000s Business rates	Council tax	TOTAL	Notes
	Income				
(79,999)	Income from council tax	0	(83,306)	(83,306)	2
(90,011)	Income from business rates	(89,935)	0	(89,935)	
141	Reconciliation adjustments	0	0	0	
(169,869)	**Total income**	**(89,935)**	**(83,306)**	**(173,241)**	
	Expenditure				
	Apportionment of previous year surplus:				
0	Central Government	0	0	0	
2,000	Gateshead Council	0	1,000	1,000	
101	Tyne and Wear Fire and Rescue Authority	0	51	51	
120	Northumbria Police and Crime Commissioner	0	62	62	
2,221		**0**	**1,113**	**1,113**	
	Precepts, demands and shares:				
44,161	Central Government	45,322	0	45,322	
114,624	Gateshead Council	45,065	73,462	118,527	
4,495	Tyne and Wear Fire and Rescue Authority	906	3,725	4,631	
4,276	Northumbria Police and Crime Commissioner	0	4,410	4,410	
1,335	Transitional protection payments payable	414	0	414	
168,891		**91,707**	**81,597**	**173,304**	
	Less charges to Collection Fund:				
1,107	Write offs of uncollectable amounts	944	0	944	
(230)	Increase / decrease in bad debt provision	0	0	0	
294	Cost of collection	292	0	292	
(190)	Reconciliation adjustments	(80)	0	(80)	
981		**1,156**	**0**	**1,156**	
2,224	**(Surplus)/deficit arising during the year**	**2,928**	**(596)**	**2,332**	
99	**(Surplus)/deficit brought forward 1 April**	**4,541**	**(2,217)**	**2,324**	
2,323	**(Surplus)/deficit carried forward 31 March**	**7,469**	**(2,813)**	**4,656**	
	Attributable to:				
2,374	Central Government	3,734	0	3,734	
126	Gateshead Council	3,660	(2,533)	1,127	
(123)	Tyne and Wear Fire and Rescue Authority	75	(128)	(53)	
(54)	Northumbria Police and Crime Commissioner	0	(152)	(152)	
2,323		**7,469**	**(2,813)**	**4,656**	

Notes to the Collection Fund Statement

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

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

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

2014/15		2015/16
48.2p	Rate in the pound	49.3p
£216.444m	Total non-domestic rateable value	£219.463m

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	
		2014/15	2015/16	2014/15	2015/16
Band A - Up to £40,000 (disabled reductions)	5/9	89	90	49	50
Band A - Up to £40,000	6/9	33,866	33,946	22,577	22,631
Band B - £40,001 to £52,000	7/9	9,723	9,915	7,562	7,712
Band C - £52,001 to £68,000	8/9	12,726	12,926	11,312	11,490
Band D - £68,001 to £88,000	9/9	4,925	5,032	4,925	5,032
Band E - £88,001 to £120,000	11/9	1,978	2,018	2,418	2,466
Band F - £120,001 to £160,000	13/9	740	755	1,069	1,091
Band G - £160,001 to £320,000	15/9	341	346	568	577
Band H - Over £320,000	18/9	14	12	28	24
		64,402	**65,040**	**50,508**	**51,073**

	2014/15	2015/16
Council tax for a band D property	£1,602.97	£1,634.29

Part 4: Accompanying documents

Annual Governance Statement

Approved by Audit and Standards Committee on 20 June 2016

Scope of Responsibility

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

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

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code is on our website[28].

This 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.

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 services in Vision 2030 and the Council Plan.

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 2016 and approval of the Statement of Accounts 2015/16.

[28] http://www.gateshead.gov.uk/DocumentLibrary/council/strategy/codeofgov.pdf

The governance framework

8 The Council continually reviews and improves its governance framework and during 2015/16, there were two significant changes:

- The Council agreed a new Council Plan 2015 – 2020 on 16 July 2015. The Council Plan has been developed to respond to the significant challenges Gateshead is facing in continuing to meet the changing needs of local people and businesses in the current economic climate, today and in the future. The Council Plan will enable the Council, with partners, to be better placed to achieve positive outcomes for the people of Gateshead and deliver the ambition of Vision 2030 over the next 5 years.

- Vision 2030 is the Council's overarching strategy that brings together and shapes the focus of strategies and plans that are produced by a number of organisations and partnerships in Gateshead. The Strategy was refreshed during 2015 (Cabinet 3/11/15) to have a clear focus on what can be achieved over the next 5 years. A copy of the Vision 2030 is available on the Council's website[29].

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

Organisational Structures

The management structure of the Council changed significantly in October 2014 with the establishment of five new service groups. Further changes that build upon this were reported to Cabinet in February 2016 in recognition that the Council is continuing to face enormous challenges in respect of the financial climate, and adapting to major changes to national policy which will affect how the Council's services and public services in general are delivered. The changes seek to rationalise functions as well as create capacity where it is needed.

Under the revised structure, the Council's functions are delivered through the following service groups:

- Office of the Chief Executive
- Care, Wellbeing and Learning
- Communities and Environment
- Corporate Services and Governance
- Corporate Resources

In addition to structural changes, on 9 February 2016 Cabinet agreed a coordinated and integrated programme of change necessary to deliver the Council Plan 2015 – 2020. The Change Programme will be led by the Chief Executive, supported by Senior Officers, and will reach every aspect of Council business.

A clear statement of the purpose and vision for Gateshead is set out in the Sustainable Community Strategy, Vision 2030, owned by the Gateshead Strategic Partnership and published on the Council's website. The Council's objectives are set out in the Council Plan 2015-2020, which documents the Council's role, working with its partners, in supporting the delivery of this Strategy. These are translated into more specific aims and objectives in the business plans which each Council service prepares annually. The achievement of these objectives is monitored by individual services and at a strategic level by the Cabinet and Overview and Scrutiny Committees.

The Council has a corporate performance management framework through which quality of service is measured via strategic outcome indicators. Following a review of the framework, Cabinet received a report on 19 April 2016 identifying a new suite of strategic outcome indicators to support the Council Plan 2015-2020. Performance is monitored by group and service management teams and scrutinised

29 http://www.gateshead.gov.uk/DocumentLibrary/People/Strategies/Vision2030.pdf

on a six-monthly basis by Overview and Scrutiny Committees, who report areas of concern to Cabinet. The Council has a performance management ICT system which brings together performance indicators, action and financial information to provide real time reporting.

The Localism Act, 2011 introduced a duty on Councils to promote and maintain high standards of behaviour by members of the Council. While the Act removed the requirement to have a Standards Committee, the Council has set up a politically balanced Committee to deal with any such issues and this was combined with the Audit Committee during 2014/15 as part of the changes to the decision making structures. The first meeting of the new Audit and Standards Committee took place on 23 June 2014. Employees are also subject to a Code of Conduct and 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, which was updated to reflect the Council's new operational structure, is subject to an annual review which ensures it is up to date in terms of changes to Council policy, revised delegations and legislative changes.

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

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

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

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

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

The Council has a Workforce Strategy 2015-2020 (Cabinet 14 July 2015) , which enables managers to realise the full potential of their team and employees participate in a regular review of their achievement and development needs. The Council's 'whistle blowing' procedure was reviewed and refreshed during 2014/15, is set out in the employee handbook and contact details are on the Council's website. Responsibilities for investigation of allegations are set out in the Council's Fraud and Corruption Policy which was updated in March 2012. The policy will be reviewed during 2016/17 to take into consideration CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption.

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

A 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 Strategic Partnership, the Local Safeguarding Children 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 Good Governance 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 effectiveness is informed by Cabinet Members, the work of senior managers within the Council who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, and also by comments made by external auditors and other review agencies and inspectorates.

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

- The opinion of Members of the Cabinet;
- The work of senior managers within the Council;

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

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

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

The Council's Local Code of Governance is reviewed regularly and was last approved by the Audit and Standards Committee on 7 March 2016. A report was presented to the Audit and Standards Committee on 20 June 2016 in which Members of the Cabinet agreed that reliance can be placed on the Council's corporate governance arrangements when carrying out their roles. The code outlines the principles of good governance and how the Council complies with them. In addition, it highlights a number of areas of future development opportunities to improve the governance framework. In April 2016, CIPFA issued new guidance on Delivering Good Governance which is applicable to the financial year 2016/17. The Council will use the revised guidance to inform its annual review of the local code.

Cabinet members and Service Directors have carried out self-assessments of the processes, controls and governance arrangements they have in place to allow them to achieve their service objectives. These included consideration of the effectiveness of internal controls. A report was submitted to the Audit and Standards Committee on 20 June 2016 which concluded that, based on the self-assessments, Cabinet members and Service Directors agree that effective controls were in place.

The Chief Internal Auditor reports to the Council's Strategic Director, Corporate Resources, but in order to ensure independence has direct and unfettered access to the Chief Executive, 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 2016. This included an assessment of compliance with the CIPFA Statement on the Role of the Head of Internal Audit (2010) and compliance with Public Sector Internal Audit Standards. This review concluded that the Council's system of internal audit is considered to be effective, which in turn allows the opinion of the Chief Internal Auditor to be relied upon.

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 2016. This opinion is based on audit reviews undertaken during the year which found all systems reviewed to be operating well or satisfactorily, except in 10 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 2015/16 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 2016 which concluded that risk management arrangements are effective.

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

Assurance on the effectiveness of the Council's legal and regulatory framework has been provided by the Strategic Director, 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 2015/16.

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

Service Directors review partnerships within their business plans on an annual basis. As partners are key to the delivery of the Council's objectives assurance of their control and governance systems is required. Following extensive consultation and review, revised approaches to partnership working were agreed by Cabinet and the Gateshead Strategic Partnership Steering Group in October 2011. This has ensured partnership arrangements are more business and action focused whilst retaining inclusive and effective engagement with the wider Gateshead community. The corporate guidance on managing partnerships effectively was updated in 2014 and is reviewed on an annual basis.

The results of the review of the Council's governance arrangements during 2015/16, including the internal control and risk management environment, have concluded that it continues to be effective.

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 2016 and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Signed:	**Signed:**
Leader of the Council	Chief Executive
Dated:	Dated:

Independent Auditor's Report

to the Members of Gateshead Council

Opinion on the Authority financial statements

We have audited the financial statements of Gateshead Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of Gateshead Council in accordance with Part 5 of the Local Audit and Accountability Act 2014, and paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of the Gateshead Council, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Strategic Director, Corporate Resources and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer 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 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Gateshead Council as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

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

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 24, schedule 7 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24, schedule 7 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

We are required under section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office, requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the National Audit Office.

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

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

We are required to conclude whether the Authority has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the National Audit Office, we are satisfied that, in all significant respects, Gateshead Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Gareth Davies
Partner
For and on behalf of Mazars LLP, Appointed Auditors
The Rivergreen Centre
Aykley Heads
Durham, DH1 5TS
28 September 2015

Glossary of Terms

Accounting policies *see Note 1*.

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

Accumulated Absences Account *see Note 6b.*

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

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

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

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

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

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

Bad debts and bad debt provisions: bad debts are those debts which are uncollectable, due to debtors going bankrupt or absconding; bad debt provisions are funds set aside to provide for debtors failing to pay.

Best Value provides a framework for the planning, delivery and continuous improvement of Council services. The overriding purpose is to establish a culture of good management in local government for the delivery of efficient, effective and economic services that meet the users' needs.

Under Best Value, the Council has a duty to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness". This improvement involves consideration of costs, making the most of money spent, and making sure that services meet the needs of communities and authorities' priorities.

Budgets are statements defining the Council's policies over a specified period of time in terms of finance. The budget also includes statements about the use of other resources (e.g. numbers of staff) and the methods of financing expenditure.

Capital Adjustment Account *see Note 6b.*

Capital charges are charges to the Comprehensive Income & Expenditure to reflect the cost of using assets. They are based upon depreciation, which represents the cost of using the asset**.**

Capital expenditure is expenditure on the acquisition of a non-current asset or expenditure which adds to and not merely maintains the value of an existing non-current asset.

Capital grants and contributions are funds provided by the government or other bodies to undertake work of a capital nature (i.e. to create a non-current asset).

Capital Grants Unapplied reserve *see Note 6b.*

Capital receipts are proceeds from the sale of Council-owned land and buildings or from the repayment of loans and advances. A major element of the Council's capital receipts is from the sale of council dwellings under the "Right to Buy" legislation.

Capital Receipts Reserve *see Note 6b.*

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

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

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

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

Collection Fund Adjustment Account *see Note 6b.*

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

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

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

Constructive obligation is an obligation that derives from an authority's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the Council has indicated to other parties that it will accept certain responsibilities, and as a result, the Council has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

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

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

Contingent liabilities are either**:**

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

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

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

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

Creditors are amounts owed by the Council for goods and services received but where payment has not been made at the end of the financial year (i.e. 31 March). Creditors also include *receipts in advance*, where the Council receives income from external bodies or individuals in advance of service provision (e.g. payment of 2016/17 council tax bill in 2015/16).

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

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

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

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

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

Deferred Capital Receipts *see Note 6b.*

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

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

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

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

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

Earmarked Reserves *include:*

- **Business Rates:** this reserve has been created to mitigate the risk of current and future business rate valuation appeals and other risks associated with the business rates retention scheme. This area of risk was previously explicitly covered by the General Reserve. It is proposed that £5.0m is still the appropriate level for the Insurance Reserve to prevent a major impact on the revenue budget in any year, however due to the volatility in the move to 100% rate retention this will need to be kept under constant review and may need to increase.

- **Insurance:** the reserve is to allow for possible claims against the Council which are not covered by external policies and to cover insured liability claims falling within the claims excess and policy stop loss. The reserve is based on an assessment of both insured and uninsured liabilities and claims potentially falling on the Council. It is proposed that £3.0m is still the appropriate level for the Insurance Reserve to prevent a major impact on the revenue budget in any year.
- **Grant Claw-back:** the reserve is for grant received which may need to be repaid. The reserve exists to mitigate the risk of potential claw-back of funding following European Audit of ERDF grant claims. Following a full review of projects this level is still considered prudent.
- **Gateshead Development Pool:** this reserve has been used to support the redundancy scheme in previous years and further support to workforce management may be required in the future.
- **Economic Growth:** one of the key objectives of Vision 2030 and the Council Plan is to stimulate the local economy. Use of this reserve will enable the Council to support emerging opportunities to accelerate development and incentivise economic growth on a business case basis within the framework of the Gateshead Economic Growth Acceleration Plan 2013-18.
- **Discretionary Social Fund:** the Discretionary Social Fund was not fully utilised during 2014/15 and this was appropriated into this reserve to support the most vulnerable in society over the period of the MTFS, as the government confirmed that specific funding for this initiative would cease from 2015/16. Funding from this reserve will be drawn down to support in year social fund activities.
- **Strategic Change:** this reserve was created in 2014/15 to support the delivery of the refreshed Council Plan over the period to 2020. This will support initiatives linked to the priorities within the plan and provide flexibility around interventions in support of outcomes, including investment in technology to deliver new ways of working.
- **Budget Flexibility:** this reserve was created in 2014/15 to allow flexibility to carry-forward appropriate under spend balances for reinvestment normally the following year. A total of £0.576m was transferred from this reserve to match expenditure incurred in 2015/16 with £1.689m appropriated into the reserve for use from 2016/17.
- **Developer Contributions:** this reserve, which is ring-fenced and not available to support the budget, consists of developer contributions in respect of agreed regeneration schemes following Section 38 and 106 agreements. The movement on the reserve will fluctuate depending on the use of the contributions to support regeneration schemes such as play areas in areas of new housing.
- **Dedicated Schools Grant**: this reserve is ring-fenced for schools use and cannot be used for other priorities within the Council. Use of this reserve will be agreed by Schools Forum.
- **Unapplied Revenue Grants:** this reserve was created as a result of changes to the Code whereby unused grants and contributions, without conditions attached, should be appropriated to reserves to fund future expenditure rather than creating creditors on the Balance Sheet
- **Public Health:** the responsibility for Public Health transferred to local authorities on the 1 April 2013. The funding is ring-fenced for future Public Health use. The 2016/17 budget has earmarked £0.438m against this reserve to support the delivery of the savings proposals within Public Health.

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

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

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

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

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

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

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

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

Expected rate of return on pension assets: for a funded defined benefit scheme, is the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the scheme.
Fair value is the price at which it could be exchanged in an arm's length transaction less (where applicable) any grants receivable towards the purchase or use of the asset.

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

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

Financial Instruments Adjustment Account *see Note 6b.*

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

General Fund *see Note 6b.*

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

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

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

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

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

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

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

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

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

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

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

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

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.

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

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

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

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

Local Government Pension Scheme (LGPS) is a nationwide public sector pension schemes for employees working in local government. It is administered locally for participating employers through many regional pension funds. The Tyne and Wear Pension Fund manages the Council's pension assets and liabilities[30].

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

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

year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period.

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

Major Repairs Reserve *see Note 6b.*

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

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

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

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

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

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

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

Operating lease is a lease other than a finance lease.

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

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

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

Pensions Reserve *see Note 6b.*

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

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

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

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

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

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

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

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

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

   (i) has control or joint control over the reporting entity;
   (ii) has significant influence over the reporting entity; or
   (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

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

   (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
   (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
   (iii) Both entities are joint ventures of the same third party;
   (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
   (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
   (vi) The entity is controlled or jointly controlled by a person identified in (a); or
   (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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

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

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

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

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

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

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

Revaluation Reserve *see Note 6b.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Contacts

For queries / feedback, please contact Craig Oakes on 0191 433 3598

Primary contacts:

Chief Executive:	**Jane Robinson** to July 2016
Chief Financial Officer:	**Darren Collins**
Deputy Chief Financial Officer:	**Keith Purvis**
Leader of the Council:	**Councillor Mick Henry** to May 2016
	Councillor Martin Gannon from May 2016
Audit and Standards Committee Chair:	**Councillor Brian Coates** to May 2016
	Councillor Helen Hughes from May 2016

Web links:

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

Gateshead Council's Statement of Accounts was produced by:

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AUDIT & STANDARDS COMMITTEE
25 JULY 2016

TITLE OF REPORT: **Annual Report to Cabinet and Council: 2015/16**

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

Purpose of the Report

1. The Committee's terms of reference require it to submit an annual report to the Cabinet and Council, and further reports and recommendations as it sees fit. The Committee is asked to consider the issues discussed during 2015/16 for inclusion in a report to Cabinet and Council.

Background

2 The Annual Report to Cabinet and Council 2015/16 allows the Audit and Standards Committee to demonstrate the positive impact of its work through providing effective challenge across the Council. This includes providing assurance on the Council's arrangements for:

- Risk management;
- Maintaining effective internal control; and
- Reporting on financial and other performance.

Contents of the Report

3 Appendix 1 includes the details of activity which the Committee has covered over the last year for consideration for inclusion in the report to Cabinet and Council.

4 The Audit and Standards Committee has received reports in the following areas:

- Internal Audit planning, performance and activity;
- Annual Internal Audit benchmarking results;
- Internal Audit recommendations;
- Internal Audit external assessment against compliance with Public Sector Internal Audit Standards;
- External Audit planning, performance and activity;
- Corporate Risk Management and Resilience activity;
- The Annual Governance Statement and supporting evidence;
- Treasury Management Policy and mid-year update; and
- Local Code of Governance update.

5 Based on the evidence presented during the year and at the meeting of the Committee on 20 June 2016 it was concluded that the Council's system of internal control and governance framework is effective. This was demonstrated through the approval of the Annual Governance Statement for 2015/16, which accompanies the Statement of Accounts.

Recommendation

6 The Committee is asked to agree the draft report to Cabinet and Council at Appendix 1.

Contact name: Craig Oakes Ext. - 3711

Appendix 1

1. Contents of the Report to Cabinet and Council – 2015/16

1.1 The Audit and Standards Committee has considered the following areas of activity during 2015/16:

2. Internal Audit planning, performance and activity

2.1 As at 31 March 2016 96% of the Internal Audit Plan was completed. This resulted in 65 audit reports. Of these reports 55 (85%) found systems to be operating well or satisfactory, with 10 (15%) reporting systems having significant weaknesses, of which one was in relation to schools.

2.2 All recommendations will be followed-up as part of the Internal Audit process and the Audit and Standards Committee will monitor the outcomes.

2.3 Based on this evidence arising from Internal Audit activity during 2015/16, the Council's internal control systems and governance and risk management arrangements are considered to be effective.

2.4 The Internal Audit Service has also co-ordinated the Council's National Fraud Initiative (NFI) work and has supported Council managers with irregularity, e-mail, internet and other disciplinary investigations on an ongoing basis during 2015/16, with quarterly updates to Audit and Standards Committee.

2.5 Other reports received during 2015/16 and relating to Internal Audit included the CIPFA Benchmarking Results for 2014/15 and a report on the outcome of external assessment against Public Sector Internal Audit Standards (PSIAS) The Audit and Standards Committee also approved the Audit Strategy and Plan.

2.6 The Audit and Standards Committee will continue to monitor Internal Audit's progress on a quarterly basis against the 2016/17 Audit Plan.

3. External Audit planning, performance and activity

3.1 The following external audit reports have been reviewed over the year:

- Annual audit fee levels for 2015/16;
- Certification of grant claims and returns; and
- Audit Strategy for 2015/16.

3.2 The Committee was also asked to consider how it exercises oversight of certain key management processes in relation to some specific areas of governance, with a potential to impact upon the financial statements, during 2015/16. This was a requirement to satisfy the external auditors that such oversight was in place in order to comply with International Auditing Standards. The Committee agreed that an effective level of oversight was in place.

4. Corporate Risk Management and Resilience activity

4.1 The Committee receives quarterly reports on the assurance derived from risk management. These reports make Councillors aware of the arrangements that exist within the Council for managing risk, the impact that these have had and the plans for further development of risk management arrangements.

5. The Annual Governance Statement and supporting evidence

5.1 The Annual Governance Statement for 2015/16 concluded that the Council's system of internal control, risk management and governance framework is effective.

5.2 The Audit and Standards Committee approved the Annual Governance Statement for 2015/16 following a review of the evidence, detailed below, and evidence seen by the Committee during the year.

6. Cabinet Members

6.1 Assurance was sought from Members of the Cabinet on the effectiveness they felt could be placed on the Council's corporate governance arrangements. They concluded that effective governance arrangements are in place.

7. Senior Managers

7.1 Service Directors completed self-assessment assurance statements detailing the level of assurance obtained from their key control processes. The conclusion of this exercise found that senior managers agreed that effective control systems were in place overall. These areas will be examined as part of the 2016/17 Audit Plan and the outcomes reported to the Audit and Standards Committee in July 2016.

8. Internal Audit

8.1 The Internal Audit Service has undertaken audit work throughout the year based on the risk based audit plan. In addition the Council has a framework of assurance available to satisfy it that risks have been properly identified and are being managed by controls that are adequately designed and effective in operation. This includes assurance from a variety of sources other than the Internal Audit Service. These other audit systems have been assessed as part of the Audit Plan.

8.2 Based on this audit activity the overall opinion of the Chief Internal Auditor for the year 2015/16 was that internal control systems and risk management and governance arrangements are effective.

8.3 A review of the effectiveness of Internal Audit has also been undertaken for 2015/16 in line with the Accounts and Audit Regulations 2015. This review focused upon compliance with the Public Sector Internal Audit Standards and the CIPFA Statement on the Role of the Head of Internal Audit, reliance placed by the external auditor on Internal Audit's work, an assessment of the effectiveness of the Audit and Standards Committee and relevant local performance information. Based on the review the Council's system of Internal Audit was considered to be operating effectively.

9. Risk Management

9.1 Risk management is embedded in the Council through a Corporate Risk Management Policy which includes the requirement to identify strategic and operational risks, assess those risks for likelihood and impact, identify mitigating controls and allocate responsibility for those controls. The Council maintains and reviews a register of its business risks, linking them to strategic business objectives and assigning ownership for each risk. Risk management awareness is an integral part of the Council's employee competency framework and a comprehensive training programme has been developed for employees at all levels.

9.2 The Strategic Director, Corporate Resources reported that risk management arrangements during the year were effective.

10. Performance Management and Data Quality

10.1 The Council has a Corporate Performance Management Framework which helps it deliver the priorities within the Council Plan. The monitoring of performance takes place at key performance points as identified in the framework including quarterly performance reported to Group Management Teams and Corporate Senior Officer meetings.

10.2 In addition performance is also monitored, measured, challenged and scrutinised on a six monthly basis at Cabinet and respective Overview and Scrutiny Committees.

10.3 Based on evidence arising from the performance management process for 2015/16 effective controls are in place.

11. Views of the External Auditor and other External Inspectors

11.1 Mazars, the Council's external auditor, issued an Annual Audit Letter covering the financial year 2014/15. This comprised of two elements: the audit of the Council's financial statements and an assessment of the Council's arrangements to achieve value for money in its use of resources. An unqualified opinion was given in both of these areas for 2014/15.

11.2 Other external inspectorates' reports have been issued from time to time on management and governance arrangements to the Council. The positive OFSTED report on Children Social Care informed the scope of the audit carried out during 2015/16.

12. The Legal and Regulatory Framework

12.1 Assurance has been obtained from the Strategic Director, Corporate Services and Governance as the Monitoring Officer who has a legal duty to ensure the lawfulness and fairness of decision-making within the Council. The Council has a Constitution in place and compliance with established policies, procedures, laws and regulations is ensured by the requirement to give the Strategic Director, Corporate Services and Governance the opportunity to comment on every report submitted to a decision-making body.

13. Financial Controls

13.1 Assurance has been obtained from the Strategic Director, Corporate Resources, 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, that financial controls are effective. Systems in place include Financial Regulations, the opportunity to comment on the financial implications of committee reports, monitoring meetings and evidence from internal and external audit.

14 Partnerships

14.1 Service Directors review partnerships within their service plans on an annual basis. As partners are key to the delivery of the Council's objectives assurance of their control and governance systems is required. Service Directors have also been required to provide assurance on governance arrangements through their self-assessment statements and all Services are required to identify, through their business plans, where delivery of activity could impact on partnership working.

14.2 During 2015/16 updated corporate guidance on the management of partnerships was issued including a Partnership Toolkit.

14.3 Based on evidence arising from partnerships for 2015/16 effective controls are in place.

15. Other Reports

15.1 Treasury Management Policy & Strategy & Six Monthly Update

In line with CIPFA's Code of Practice on Treasury Management the Annual Treasury Policy and Strategy are reviewed by the Audit and Standards Committee prior to being reported to Cabinet and Council. A six monthly position is also reported through the Audit and Standards Committee to highlight progress on investment performance and borrowing.

15.2 Local Code of Governance Update

The Council has a local code of governance which was originally presented to the Audit Committee in April 2007. In line with good practice the document should be reviewed regularly and the Audit Committee were asked to consider a revised version on 16 March 2015 which they agreed.

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Gateshead Council

AUDIT AND STANDARDS COMMITTEE
25 July 2016

Title of report: **Amendment to the Treasury Policy Statement and Treasury Strategy 2016/17 to 2018/19**

Report of: **Darren Collins – Strategic Director, Corporate Resources**

Purpose of the Report

1. This report asks the Audit and Standards Committee to review the proposed amendment to the Treasury Policy Statement and Treasury Strategy for 2016/17 to 2018/19 prior to consideration by Cabinet in September 2016.

Background

2. To provide a framework for the Strategic Director, Corporate Resources to exercise his delegated powers, the Council agrees a three year Treasury Management Policy and Treasury Strategy which is reviewed at the start of each financial year.

3. The current Strategy was approved by Cabinet on the 15th March 2016 and the Strategy states that any in year changes have to be reported and agreed by Cabinet on an exception basis. This report is to consider an in year change.

4 Following on from the recent vote to leave the EU, Capita, the Council's Treasury Advisers produced a note providing an update on recent action taken by credit ratings agencies on the UK sovereign rating. This was to ensure that Local Authorities who have sovereign criteria in their strategy review their policy and remove the UK from this criteria.

5 The current strategy requires that all countries in which the Council invests monies have a minimum country sovereign rating of AA+ and this includes the UK. However the relevance of this sovereign rating for the UK has been weakened due to the evolution of financial market regulations that has seen the link between sovereigns and their respective banks materially weakened.

6 The result of the breakage of the link has meant that there is little or no "sovereign uplift" to any major bank ratings in the UK and beyond.

7 The Council's Treasury Advisers, Capita have advised that the UK sovereign rating is currently not a constraining factor for any UK bank ratings and while there are negative implications for the UK, its economy and financial institutions as a result of Brexit, financial markets and the operators therein are materially stronger, in terms of capital and liquidity than they were ahead of the financial crisis.

8 The Governor of the Bank of England has stated "…the capital requirements of our largest banks are now ten times higher than before the crisis. The Bank of England has stress tested them against scenarios more severe than the Country currently faces. As a result of these actions, UK banks have raised over £130bn of capital, and now have more than £600bn of high quality liquid assets."

9 The impact of Brexit may filter through to the individual bank ratings that the credit rating agencies supply. These ratings are regularly reviewed to ensure compliance with the current strategy. We will continue to review the UK banks in line with the current strategy and advice from our Treasury advisers.

10 Failure to adopt this amendment could mean that the Council is in a position where no deposits can be made with UK Banks.

Proposals

11 The Committee is asked to review the amendment to the Treasury Policy and Treasury Strategy in Appendix 1 reflecting the removal of the UK from the requirement to have AA+ sovereign rating.

Recommendation

12 The Committee is asked to review the recommendations on the Treasury Policy and the Treasury Strategy and submit any comments to Cabinet.

Change required:

- Section 6. Investment Strategy 2016/17 to 2018/19 to change to reflect the exclusion of the UK from the requirement to have a sovereign rating of AA+ as shown in appendix 1.

For the following reason:

- To ensure that the Council fully complies with the requirements of good practice as recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in its Code of Practice on Treasury Management and Prudential Code for Capital and the Department for Communities and Local Government (CLG), Guidance on Local Government Investments.

CONTACT: Stephanie Humble, ext. 3591

6.12 The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. While this authority understands the changes that have taken place, it will continue to specify a minimum sovereign rating of AA+ to all banks outside the UK. This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background, will still have an influence on the ratings of a financial institution.

6.13 It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution. They are merely reflective of a reassessment of rating agency methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

Creditworthiness Policy

6.14 The Council uses the creditworthiness service provided by Capita Asset Services to assess the creditworthiness of counterparties. The service provided by Capita Asset Services uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following information as overlays which are combined in a weighted scoring system:

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap spreads, financial agreements that compensate the buyer in the event of a default, which give an early warning of likely changes in credit ratings; and
- Sovereign ratings to select counterparties from only the most creditworthy countries outside the UK.

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AUDIT AND STANDARDS COMMITTEE
25 July 2016

TITLE OF REPORT: **Corporate Risk Management 2016/17 Quarterly Report to 30 June 2016**

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

Purpose of the Report

1. This report makes the Committee aware of developments in Corporate Risk Management during the period 1 April 2016 to 30 June 2016 in compliance with the requirements of good corporate governance.

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 approved by Council on 6 June 2013.

3. The report covers progress against the corporate risk management Developmental Objectives for 2016/17 as cited in the Corporate Risk Management Annual Report 2015/16 and any other risk management issues emerging within the quarter under consideration.

Developmental Objectives 2016/17

4. An Action Plan for the delivery of the Developmental Objectives for 2016/17 incorporating progress to date is shown at Appendix 1.

5. Business Continuity Plans have been reviewed to ensure they are consistent with the revised Council structure. Further work will be carried out during 2016/17 to reflect ensure they reflect any future challenges facing the Council or changes to delivery models.

6. Work being undertaken to refresh the Strategic Risk Register has been delayed to align progress with the organisational and business environment changes.

7. The Council's current Strategic Risk Register is attached at Appendix 2 for information.

Recommendation

8. It is recommended that the Committee note the report.

CONTACT: **Jane Wright** extension: 3801

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Corporate Risk Management: Developmental Objectives 2016/17

Ref:	Objective	Target Implementation Date	Progress to date
1	Business Continuity Plans will be updated, enhanced and subject to testing.	July 2016 – partial implemented March 2017 – for outstanding elements of this objective	The Business Continuity Plans have been updated to reflect the revised Council structure. Further work will be carried out during the year to enhance and test the Business Continuity Plans.
2	The Strategic Risk Register will be refreshed which will include a review of the template and supporting documentation.	July 2016 December 2016	Implementation date revised to December 2016 to reflect the timing of decisions facing the Council.
3	The Operational Risk Register will be refreshed, this will include a review of the template and supporting documentation.	December 2016	
4	The Council's Risk Management and Business Continuity Policies will be reviewed to ensure they comply with best practice and are responsive to the challenges facing the Council	July 2016	Implementation date moved to December 2016 to ensure any changes to policies and guidance is consistent with the challenges facing the Council.

Ref:	Objective	Target Implementation Date	Progress to date
5	The provision of further Risk Management training to Councillors and officers appropriate to their responsibilities.	December 2016	
6	Assess the risk management performance indicators obtained through the participation in the ALARM/CIPFA benchmarking club to identify any areas of best practice that can be incorporated into the Council's Risk Management arrangements.	July 2016	Complete

GATESHEAD COUNCIL STRATEGIC RISK REGISTER

Strategic risks are events that could impact upon the Council's ability to achieve the objectives of the corporate plan and the longer term objectives of Vision 2030. They include significant events that could impact upon on the infrastructure and efficient operation of the Council.

The Council Plan 2015-2020 will focus on the following priorities:

1. **Meeting the needs of Gateshead residents and reducing inequality.**
2. **Delivering our long term strategy, Vision 2030.**
3. **Delivering our ambition of sustainable economic growth and well being.**
4. **Focusing on our 'have to do', statutory functions (strategic, democratic, safety).**

Risk no	Description of risk [See comment box for details]	Comment	Risk Owner	Likelihood	Impact	Gross Risk Before Controls	Current controls	Responsibility for current controls	Likelihood	Impact	Net Risk After Controls	Proposed / Further controls	Responsibility for proposed controls
1	Reduction in local government finance	Government formula is partly influenced by factors such as size of population and areas of deprivation. Static or falling population within Gateshead and rural/urban mix may lead to unfavourable settlements. The March 2014 budget identified that resources to the local government budget were to be reduced from £16.6bn in 2013/14 to £13.8bn in 2014/15 and £12.1bn in 2015/16. The Chancellor also indicated that further cuts to public servcies of around £25bn were to be expected and these were likely to include additional cuts to councils. Central Government commitments to eliminating the budget deficit and to reducing the overall levels of public debt would indicate at least four more years of significant reductions in government grant. The Council will need to take into account local economic growth assumptions, potential future business growth and demand for council tax support when assessing future funding levels.	Strategic Director, Corporate Resources	4	4	RED 16	1) Implementation of Medium Term Financial Strategy. 2) Effective financial and business planning process in place. 3) Lobbying of central government through various bodies e.g. ANEC, SIGOMA, LGA etc 4) Actions to achieve Vision 2030 targets on population growth. 5) Exit strategies for priority initiatives and significant partnerships contained within service plans. 6) Transformation programme to transform the way we deliver services to ensure council services are efficient and effective.	Strategic Director, Corporate Resources Service Directors Asst Chief Executive Asst Chief Executive Strategic Director, Corporate Resources Asst Chief Executive	4	2	RED 8	1) Explore implications of Localism Agenda. 2) Tighter monitoring of business rate collection and increased forecasting/ modelling to manage risk and plan ahead for worst case scenarios.	Strategic Director, Corporate Resources Strategic Director, Corporate Resources.
2	Uncertainty over availability of capital finance to support key priorities.	Several major capital and regeneration projects require external funding to support the plans.	Strategic Director, Corporate Resources	4 External funding falling off due to economic recession and change in regional policy. Also own funding pressure has increased.	3	RED 12	1) Explore new funding mechanisms 2) Ability of Gateshead to demonstrate success with previous projects helps to secure external partners and external funding (building on reputation). 3) Proactive engagement with potential public and private sector partners. 4) Engagement of specialist consultants to advise and assist with projects. 5) Scale down expectations of external funding. 6) Make propositions more attractive to funders, which may include considering alternative models of project delivery and the level of match funding. 7) MTFS includes target external funding levels and confirmed external funding levels to assist with the development of the Capital Programme. 8) Do not commit to projects until firm commitment to funding.	Relevant Strategic Director Relevant Strategic Director Relevant Strategic Director Relevant Strategic Director Relevant Strategic Director Relevant Strategic Director Strategic Director, Corporate Resources Relevant Strategic Director	3 May influence likelihood through more effective / appropriate bidding, lobbying, etc.	3 Unable to reduce impact	RED 9	1) Add external funding regime update as standard agenda item for capital monitoring meetings. 2) Explore implications of Localism Agenda. 3) Strategic Investment Plan including Capital Programme	Relevant Strategic Director Strategic Director, Corporate Resources Strategic Director, Corporate Resources
3	Clawback of grant funding for previous projects due to failure to meet grant conditions / targets.	Gateshead Council is the accountable body for a number of prestige projects e.g. The Baltic. If grant conditions not met the Council could be liable to repay the funding body.	Strategic Director, Corporate Resources	4	4 Potential for clawback in excess of £10 million if grant conditions not met.	RED 16	1) Financial control measures for projects are in place and implemented (including the requirement for Finance to consider and approve any accountable body requests). 2) Project Management, data retention and monitoring processes are in place and implemented. 3) An earmarked reserve is set aside within the Med. Term Financial Strategy for grant clawback and is reviewed on an annual basis. 4) Internal Audit activity.	Strategic Director, Corporate Resources Strategic Director, Corporate Resources Strategic Director, Corporate Resources Relevant Strategic Director	2	3	AMBER 6	1) Asset Management Plan 2) Issue External Funding Protocol to clarify External Funding processes 3) Central register of external funding 4) Agresso asset register module to record details of external funding for each asset	Strategic Director, Corporate Resources Strategic Director, Corporate Resources Strategic Director, Corporate Resources Strategic Director, Corporate Resources

Appendix 2

Risk no	Description of risk [See comment box for details]	Comment	Risk Owner	Likelihood	Impact	Gross Risk Before Controls	Current controls	Responsibility for current controls	Likelihood	Impact	Net Risk After Controls	Proposed / Further controls	Responsibility for proposed controls
4	Reduced financial resource due to higher than anticipated costs from implementation of the Council's workforce transformation strategy and residual equal pay claims.	As part of the workforce transformation strategy a voluntary redundancy exercise has been implemented the eventual cost of which has yet to be determined. The Workforce Transformation strategy has been successfully implemented, through phases of voluntary and compulsory redundancy and other operational changes to save employment costs. Further redundancies are likely to be required in future years. Residual costs of Equal pay are being managed.	Strategic Director, Corporate Services and Governance	4	2	RED 8	1) Reserves set aside within Medium Term Financial Strategy. 2) Proactive HR strategy to issues. 3) Capitalisation, use of reserves for management of workforce to produce savings.	Strategic Director, Corporate Resources. Strategic Director, Corporate Services and Governance. Strategic Director, Corporate Resources	2	2	AMBER 4		
5	Failure or delay in the transformation programme impacting on ability to deliver necessary scale of budget savings & long term planning.	•The Programme fails to have clear strategic buy in, commitment and drive from the top, through to all levels of management • The governance structure does not facilitate timely decision making at the appropriate level of the organisation using sound evidence / information, which impacts on the ownership, accountability, pace and deliverability of the overall programme	Strategy Group	3	4	RED 12	• Strategy Group is utilised as a programme board. Regular update and progress reports to allow timely decision making	Strategy Group	2	3	AMBER 6		
		• The programme structure does not manage the aggregation of risks and issues from within individual projects (which may result in a greater cumulative impact on the council) • The programme structure does not effectively manage links and interdependencies across the 5 transformation projects and other related work, resulting in sub-optimal benefits, double counting of savings and duplication of effort • Failure to correctly assess ability to adhere to statutory duties and legislative requirements • Failure to correctly assess the governance of any new delivery models and potential legal action and service failure • Delays leading to non achievement of key milestones, leading to short term decision making and an unsustainable budget position • Poor resource planning and scheduling of activities • Ineffectives stakeholder engagement – focusing on residents, partners and suppliers as well as employees, councillors and trade unions leading to service failure, reputational damage, breach of legislation	Strategy Group	3	4	RED 12	• Risk log to be managed by each board and consideration as a whole by transformation team on a regular basis • Weekly team meeting to discuss activities within each area .Contact established across a network of key service areas to ensure areas of activity are acknowledged and fed into boards to ensure alignment • Each board has a mixture of expertise including legal, HR, policy, ICT and finance as well as Service specific which will ensure the ability to meet current stautory and legislative requirements in any new arrangements will continue • Specific professional advice will be sought at the appropriate point to assess any new arrangements that may be set up • The programme is managed through Stategy Group and the Chief Executive allowing the drive and pace to be set from the most senior officers • Key Milestones and project planning managed effectively by designated project managers • Implement effective Communication and Engagement Plan for the transformation programme in a timely manner.	Margaret Whellans	2	3	AMBER 6		
6	Failure to maintain or improve positive direction of travel in new environment of less centralised regulation.	Gateshead has a reputation as a Council that performs well. Failure to demonstrate continuous improvement could seriously damage the reputation and good standing of the Council.	Asst Chief Executive	4	3	RED 12	1) Policy planning and redesigned performance management framework. 2) Improvement plans including actions from assessment and inspection recommendations. 3) GSP protocol performance management framework and improvement plan. 4) Peer reviews and self assessment approaches.	Service Director, Communications, Policy and Improvement Service Director, Communications, Policy and Improvement Service Director, Communications, Policy and Improvement Service Director, Communications, Policy and Improvement	2 All targets may be achieved but direction of travel subjective to performance of other Councils.	2 Has potential to attract adverse local media coverage.	AMBER 4	1) Regional approach to Sector Led Improvement 2) Refocussed Fit for Future programme	Service Director, Policy, Transformation and Communications Asst Chief Executive

Appendix 2

Risk no	Description of risk [See comment box for details]	Comment	Risk Owner	Likelihood	Impact	Gross Risk Before Controls	Current controls	Responsibility for current controls	Likelihood	Impact	Net Risk After Controls	Proposed / Further controls	Responsibility for proposed controls
7	Reduction in scope to recruit and retain sufficient numbers of skilled staff in key areas.	The Council currently has a recruitment freeze in force which means that only posts which are required in order for the Council to meet a statutory duty or are frontline and critical to service delivery can be appointed to. In light of the budget savings required, the Council is also managing a large scale voluntary redundancy exercise. In considering applications for VR managers need to balance budgets savings targets and future service delivery. A new Workforce Strategy and Workforce Plan will be developed as part of the HR Business Planf. This will include analysis of the workforce demography and identify any skills gaps. A Learning & Development Plan has been drafted in consultation with GMTs and delivery is being prioritised to match identified needs.	Strategic Director, Corporate Services and Governance	3	4	RED 12	1) Reputation as a Council performing well attracts quality staff. 2) Reputation of the Council for financial stability helps to attract and retain staff. 3) Workforce Development Plan 4) Enhanced learning and development strategy plan. 5) Improved employment terms and conditions. 6) Improved profile of Gateshead as an area where people wish to live and work (Vision 2030).	Asst Chief Executive Strategic Director, Corporate Resources Strategic Director, Corporate Services and Governance Strategic Director, Corporate Services and Governance Strategic Director, Corporate Services and Governance Asst Chief Executive.	2	2	AMBER 4		Service Director, Human Resources and Organisational Development
8	Continued sickness absence levels significantly in excess of national average.	Gateshead Council consistently records sickness absence levels in the bottom quartile of public sector bodies. Occupational Stress being the most frequent cause. A range of measures have been put in place with some progress made, outcomes are in need of improvement. Continued absence at this level could significantly impact on core priorities and CSR efficiency targets. The Council's latest sickness figures are increasing, over 9 days on average. Stress action plans are in place, and the Council is performing well against the HSE Work Related Stress Management Standards.	Strategic Director, Corporate Services and Governance	4 In lowest quartile	3	RED 12	1) Improvement plan developed following overview and scrutiny review. 2) Improvement plan following Audit Commission review. 3) Sickness levels monitored 6 monthly within Council Plan (as a strategic indicator). 4) HR Initiatives aimed at reducing sickness level, by reprioritising their work to pick up on long-term cases. 5) ICT reporting tool 6) Regular sickness reports to SMG (Performance and Services).	Strategic Director, Legal & Corporate Services Strategic Director, Legal & Corporate Services Strategic Director, Legal & Corporate Services Service Directors Service Directors Service Directors	3	2	AMBER 6	1) Have a Workforce and Organisational Change workstream under Fit for Future that will ensure alignment of the Council's human resources with its future business direction and will include the development of a new workforce plan	Service Director, Human Resources and Organisational Development
9	New approach to commission and deliver services through neighbourhood working fails to provide improved services.	Neighbourhood and area working has been developed in some Council services, in support of area partnership working arrangements with partners. Some partners may not be able to commit to this model of working in future years due to budget pressures.	Strategic Director, Corporate Resources (Chair of Area Chief Executives Rep Group)	4	3 Has potential to attract adverse comment / criticism from external bodies	RED 12	1) Commissioning Plan, 2) Responsibilities for Area Portfolios assigned within cabinet. 3) Responsibilities for area working clearly assigned throughout senior management structure. 4) Area Conferences in place to develop effective partner engagement at area level. 5) Neighbourhood priorities developed. 6) Neighbourhood training and development programme. 7) Planned reviews of effective neighbourhood working. 8) Provision of intelligence through the analysis of data at appropriate spatial levels	Asst Chief Executive Asst Chief Executive Strategic Director, Communities and Environment Strategic Director with responsibility for area. Strategic Director with responsibility for area. Strategic Director, Communities and Environment Strategic Director, Communities and Environment Service Director, Policy, Transformation and Communications	2	2 Would result in some reputational issues	AMBER 4	1) Application and delivery of the Commissioning Plan. 2) Developing capacity of communities and the voluntary sector 3) Review of neighbourhood services	Asst Chief Executive Service Director, Culture, Communities & Volunteering Strategic Director Communities and Environment

Appendix 2

Risk no	Description of risk [See comment box for details]	Comment	Risk Owner	Likelihood	Impact	Gross Risk Before Controls	Current controls	Responsibility for current controls	Likelihood	Impact	Net Risk After Controls	Proposed / Further controls	Responsibility for proposed controls
10	Failure of Gateshead Council and neighbouring authorities to respond to changing national policy agenda.	Effective working relationships with other authorities in the North East is essential to address common and shared issues.	Chief Executive	3	3 Non-collaboration can cause problems in some policy areas	RED 9	1) Gateshead / Newcastle partnership GNP. 2) Significant Gateshead/ Newcastle joint initiatives 3) Work of the North East LEP and Combined Authority (governance). 4) Active senior level engagement in several regional and national forums. 5) General proactive approach to engagement in joint projects with neighbouring authorities. 6) North East Strategic Economic Plan March 2014 including North East Growth Deal 7) Regional City Deal	Asst Chief Executive Asst Chief Executive Asst Chief Executive Asst Chief Executive Asst Chief Executive	2	2	AMBER 4		Asst Chief Executive
11	Greater/ less than anticipated demand on key services resulting from demographic changes within Gateshead.	Demographic intelligence currently indicate that the number of the very elderly and elderly within the Borough will continue to increase at a much greater rate than the working age population (which is only increasing due to the incremental changes in the retirement age). The number of births has stabilised and started to decrease again after a few years of growth. Policies and strategies are in place tp promote economic and (working age) population growth. Efficient service delivery will need to take account of demographic changes and the ability to accurately forecast changes and future economic conditions. Increase in unemployment arising from the slow recovery from economic recession is an additional factor, together with the impact of welfare reform. The number of school age children has generally been on a declining trend, though an increase in the birth rate has halted this trend in recent years and small increases have been recorded and are expected to continue in the medium term. The number of births has stabilised and started to decrease again with the longer term trend for school age children declining again in the future. Efficient service delivery will rely on the accuracy of projections and also the success of several of the core priorities in meeting these needs and reversing trends. Increase in unemployment and worklessness arising from the economic recession is an additional factor, as is the impact of welfare reform. There has been a steady increase in the number of Looked After Children in the Borough since 2009/10, which reflects the national trend. We currently have 378 LAC in November 2012 compared to 316 at the end of March 2010, putting significant pressure on resources. There has been a significant rise in the number of more expensive Out of Borough and Independent Fostering Agency placements being used due to in-house placements being at capacity. Overall numbers of children being referred into the system have also significantly increased, leading to operational and financial pressure on assessments, care planning and safeguarding teams.	Asst Chief Executive	4	3	RED 12	1) Self assessment and external validation. 2) Development of intelligence through the JSNA and Strategic Needs Assessment 3) Business Plans and PACE review process. 4) Medium Term Financial Strategy. 5) Initiatives working toward attainment of key 2030 targets. 6) Primary and Secondary School reviews. 7) Asset Management Plan. 8) Intelligent commissioning and needs assessment. 9) Fostering training - CBS/Learning and Children action plans 10) Monthly case by case review of Out of Borough placements 11) Payments for skills to focus resources on recruitment and training of in-house carers to increase capacity	Relevant Strategic Director Service Director, Policy, Transformaiton and Communications Service Directors Strategic Director, Corporate Resources. Asst Chief Executive Strategic Director, Care, Wellbeing and Learning Strategic Director, Commuities and Environment Service Directors Strategic Directors, Care, Wellbeing and Learning Strategic Directors, Care, Wellbeing and Learning Service Directors, Care, Wellbeing and Learning	2	3	AMBER 6		

Appendix 2

Risk no	Description of risk [See comment box for details]	Comment	Risk Owner	Likelihood	Impact	Gross Risk Before Controls	Current controls	Responsibility for current controls	Likelihood	Impact	Net Risk After Controls	Proposed / Further controls	Responsibility for proposed controls
12	Major incident (accident, natural hazard or act of terrorism) affecting the safety, health, welfare, security or prosperity of the people of Gateshead.	A large number of external events could impact on the people of Gateshead ranging from flood, winter storms to pandemic flu. The Community Risk Register will identify in more detail the most significant risks.	Strategic Director, Communities and Environment	2	4 Potential for total disruption to key functions.	RED 8	1) Single and Multi Agency Emergency plans and response arrangements in place and regularly exercised and tested to ensure preparedness to respond and recover 2) Geographical approach to the Response arrangements to ensure an effective response in specific geographical areas 3) Membership and active involvement with the Gateshead and Multi Agency Resilience and Emergency Planning Group. 4) Membership and active involvement with Northumbria Local Resilience Forum, Executive Board, Business Management Group and Theme Groups. 5) Involvement in CONTEST (Counter Terrorism) Agenda through the Strategic CONTEST Board and the Prevent Protect and Prepare Group (PPP)	Strategic Director, Communities and Environment Strategic Director, Communities and Environment Strategic Director, Communities and Environment Strategic Director, Communities and Environment Strategic Director, Communities and Environment	2	3	AMBER 6	1) Implementation on Resilience Strategy and key priorities 2) Further testing of the Council's emergency response and recovery arrangements in "Norland" multi-agency exercise in 2014. 3) Further testing of the Council's emergency response and recover arrangements in strategic exercises 2014/15 4) Continued involvement with the Gateshead Severe Weather Resilience Planning Group.	Strategic Director, Communities and Environment and relevant Service Directors Strategic Director, Communities and Environment and relevant Service Directors Strategic Director, Connumities and Environment and relevant Service Directors Strategic Director, Communities and Environment and relevant Service Directors
13	Major incident/ business interruption affecting availability of the Council's resources and impacting on ability to deliver critical services (as a result of the need to respond to major incident and/or loss/damage to Council Infrastructure).	As with all organisations the Council faces exposure to a number of external and internal events that could impact on the availability of the resources needed to perform its critical functions. Such events range from pandemic flu affecting availability of staff to the loss of the civic centre due to fire or explosion, to major IT failure.	Strategic Director, Corporate Resources	2	4 Potential for total disruption to key functions.	RED 8	1) Business Continuity plans in place and regularly tested. 2) Testing of plans to ensure no conflict between BCPs and the Emergency Response Plans and arrangements 3) Training of key personnel in business continuity management. 4) Awareness raising of BCPs to all staff.	Strategic Director, Corporate Resources Strategic Director, Corporate Resources and Strategic Director, Communities and Environment and all Service Directors Strategic Director, Corporate Resources Strategic Director, Corporate Resources and all Service Directors	2	3	AMBER 6	1) Further testing of the Council's emergency response and recovery arrangements via strategic exercises in 2014/15	Strategic Director, Corporate Resources and Strategic Director, Communities and Environment and all Service Directors
14	Failure to understand and plan to mitigate the impact of the climate change on the Borough.	More frequent severe weather events will impact on the people of Gateshead ranging from flood, winter storms, heatwaves etc. Changing seasons and weather patterns may affect many services in their design and delivery which may have a serious effect on residents and businesses in their activities. The Community Risk Register will identify in more detail the most significant risks.	Strategic Director, Communities and Environment	4	3	RED 12	1) Single and Multi Agency Emergency plans and response arrangements in place and regularly exercised and tested to ensure preparedness to respond and recover 2) Membership and active involvement with Gateshead Multi Agency Resilience and Emergency Planning Group 3) Membership and active involvement with Northumbria Local Resilience Forum, Executive Board, Business Management Group and Theme Groups	Strategic Director, Communities and Environment Strategic Director, Communities and Environment Strategic Director, Care, Communities and Environment	4	2	RED 8		

Risk no	Description of risk [See comment box for details]	Comment	Risk Owner	Likelihood	Impact	Gross Risk {Before Controls}	Current controls	Responsibility for current controls	Likelihood	Impact	Net Risk {After Controls}	Proposed / Further controls	Responsibility for proposed controls
15	Catastrophic failure in directly provided and commissioned service delivery.	Failure to protect children, young people and vulnerable adults could place indiviudals at risk of significant harm. It could also result in compensation claims against the Council, judicial review processes, poor inspection outcomes and reputational risk. Protecting vulnerable adults and securing the welfare of children and young peope are key priorities of the Council Plan.	Strategic Director Care, Wellbeing and Learning and Asst Chief Executive.	4	4	RED 16	1) Local Safeguarding Children Board 2) OSC monitoring of CQC and Ofsted inspections (announced and unannounced) 3) Corporate Health and Safety Framework – Health and Safety Management System in place which includes a revised H & S Policy. The H & S Strategy is under review and will go to the Corporate H & S Committee as part of the consultation process. Reporting on H & S issues is embedded in the Council with SMG receiving an annual then quarterly updates and OSC receiving an annual report. 4) Legionella action plan. Legionella documentation sits under the Corporate H & S pages on the intranet but are managed within D & E 5) Asbestos register. Asbestos documentation sits under the Corporate H & S pages on the intranet but are managed within D & E. 6) Pandemic Influenza Plan sits within resilience planning. 7) Safeguarding Adults Partnership Board 8) Quality monitoring framework including reviews, analysis of complaints, contract compliance and decommissioning procedures in place for adult social care services	Relevant Strategic Director Relevant Strategic Director Relevant Strategic Director Relevant Strategic Director Relevant Strategic Director Relevant Strategic Director Relevant Strategic Director Relevant Strategic Director	2	4	RED 8	1) Sector Led Improvement 2) Resilience Planning 3) Development of Communications Strategy	Relevant Strategic Director Relevant Strategic Director Service Director, Policy, Transformation and Communications
16	Failure to understand and plan to mitigate the impact of the economic recession on the availability and sustainability of adequate financial resources to deliver objectives.	The recent worldwide recession presents a major risk to the sustainability of adequate financial resources to fund the Council's objectives. The prevailing economic climate brings with it uncertainty and risk, which can impact on financial resources in a number of ways, including:- • Shortfall in forecast capital receipts from disposal of surplus assets, due to reduced demand and suppression of land values; • Potential that private sector partners in capital projects fail to raise loan finance or suffer from market failure; • Reduced returns on monies invested due to interest rate reductions arising from the lowest ever base rate;	Strategic Director, Corporate Resources	4	4	RED 16	1) Medium Term Financial Strategy. 2) Capital Receipts monitoring as part of the Capital Programme 3) Treasury Management processes and system. 4) The Treasury Management Investment Strategy, which balances the relationship between minimising risk and optimising returns on investments, is reviewed annually to ensure funds are placed in the most secure investments. 5) Corporate Asset Management Group	Strategic Director, Corporate Resources Strategic Director, Corporate Resources Strategic Director, Corporate Resources Strategic Director, Corporate Resources Strategic Director, Corporate Resources	2	3	AMBER 6		
17	An increased number of schools either deciding to become academies or are forced to by the DfE.	Two broad areas of risk: 1) an increased number of academies would result in the funding for central services being reduced and if schools did not decide to buy back then there would be a greater likelihood of redundancy; 2) a lack of central services, especially in school improvement, would reduce the Council's capacity to intervene and support maintained schools that are experiencing difficulties. The DfE may become more aggressive in its approach to schools leaving Local Authority control, reducing the potential impact of any control measures.	Strategic Director Care, Wellbeing and Learning	2	3	AMBER 6	1) Continued offer of high quality central services that delivery value of money. 2) Maintain high quality school improvement officers that have credibility with school leaders. 3) Maintain strong networks with schools that reinforce the links within, and the benefits of being in the Gateshead Family. 4) Ensure that relationships are strong with Gateshead Academies and aim to be the provider of choice for "buy back" services. 5) Ofsted Inspections	All Service Directors delivering services to schools Service Director Learning and Schools Service Director Learning and Schools All Service Directors delivering services to schools All Service Directors delivering services to schools	2 (although lower than previously)	3	AMBER 6	1) Devise a "Gateshead Academy Trust" that redefines the council's relationship with schools	Strategic Director, Care, Wellbeing and Learning

Risk no	Description of risk [See comment box for details]	Comment	Risk Owner	Likelihood	Impact	Gross Risk Before Controls	Current controls	Responsibility for current controls	Likelihood	Impact	Net Risk After Controls	Proposed / Further controls	Responsibility for proposed controls
18	The impact of increased demand on Council services as a result of the socioeconomic impact of the Government's Welfare Reform programme.	The aims of the Welfare Reform programme are to encourage people back into work and to reduce the costs of benefit administration. These reductions will in turn be used to reduce the Government's Budget deficit. However the cumulative impact of the reforms on residents with low incomes could have far reaching consequences for the Council in terms of increased demand for services e.g. Adult and Children's Services, Debt Advice and Housing services. The two main changes in relation to housing are the following; Housing benefit will be paid (from the Department of Work and Pensions) directly to the tenant (as part of the new Universal Credit payment) and not to the Council as is currently the case. Universal Credit is a key feature of Welfare Reform and is a single payment for people looking for work on a low income. All payments of rents will be made by the tenant to the Council and any recovery of rent arrears in relation to tenants on housing benefit will be the responsibility of the Council. The scheme goes live nationally from October 2013 for all new claimants and is expected to be fully implemented by 2017. A Universal Credit 'Pathfinder' programme will take place in Tameside, Oldham, Wigan and Warrington from 1 April 2013 and the findings will be used to make changes (where necessary) to the new scheme. For information, currently 13,763 (69%) of Gateshead Council tenants claim Housing Benefit. Housing benefits claimants living in the social rented sector (which includes local authority tenants) will receive less housing benefit from the Department of Work and Pensions from 1 April 2013 if they are under occupying a Council house (i.e. deemed to have more bedrooms than they need). The changes from 1 April 2013 are for tenants of working age only (those over state pension credit age are not affected). The cut will be a fixed percentage of the housing benefit eligible rent and will be set at a reduction of 14% for one extra bedroom or 25% for two or more extra bedrooms.	Asst Chief Executive Strategic Director, Corporate Resources and Strategic Director, Care, Wellbeing and Learning	4	4	RED 16	1) Given the complexities and cross cutting nature of the reforms, a Welfare Reform Officer Group has been set up to co-ordinate the Gateshead response. 2) The cumulative impact of the loss of benefit reduced household income and spending power on the economy is being modelled in order to understand the increased pressure on individuals to manage their finances. This includes a focus on the risk of financial exclusion and debt issues as well as the pressure on businesses. 3) 30 year HRA business plan	Service Director, Customer and Financial Services Service Director, Customer and Financial Services & Service Director Economic and Housing Growth Strategic Director, Corporate Resources	3	3	RED 9	1) Welfare Officer Reform Group to oversee and bring together activities, policy and strategy, recognising that many services will be involved in taking action in Gateshead. 2) Financial Services/Corporate Finance monthly monitoring of collection fund 3) Additional controls to be developed 4) Digital Inclusion included as priorty theme under the Gateshead Volunteering Plan. Volunteering programme will be developed to support the capacity building of publics skills and knowledge around IT.	Service Director, Customer and Financial Services Strategic Director, Corporate Resources Strategic Director, Corporate Resources Service Director, Culture, Communities and Volunteering
19	Risk that the quality of care to Older People in residential and nursing care homes is compromised.	The Council has undertaken a fair cost of care process and alongside this introduced a revised Quality Excellence Framework. Cabinet approved this in June 2013. The Gateshead Independent Care Home Association Members have not signed up to the revised fees or quality framework. They have issued a pre-action protocol to Judicial Review over the decision making process. No formal proceedings have subsequently been issued to date. Those members continued to be paid a lower fee and have not been assessed as to the quality of care against the new framework.	Strategic Directors, Care, Wellbeing and Learning, Corporate Resources, and Corporate Services and Governance	2	4	RED 8	As a consequence of choice directions the Council has not taken a decision to cease making placements in the homes who have not signed up to the revised framework and fees. These homes are subject to CQC registration and part of the Council's Commissioning Inspection regime, which includes unannounced visits. There are also complaints and safeguarding processes which enable concerns about the quality of care to be raised with the Council.	Strategic Directors, Care, Wellbeing and Learning, Corporate Resources, and Corporate Services and Governance	2	3	AMBER 6	No Judicial Review proceedings issued, implementation of framework and new fees is in progress.	Strategic Directors, Care, Wellbeing and Learning, Corporate Resources, and Corporate Services and Governance

Risk no	Description of risk [See comment box for details]	Comment	Risk Owner	Likelihood	Impact	Gross Risk Before Controls	Current controls	Responsibility for current controls	Likelihood	Impact	Net Risk After Controls	Proposed / Further controls	Responsibility for proposed controls
20	Risk of data breaches by staff, in relation to unauthorised disclosures of electronic, and paper based data and , unencrypted file transfers. this causes a risk to the Council's reputation and as well as a potential fine of up to £500,000 per data breach can lead to claims for damages from those affected.	The Council has an information security policy which clearly sets out responsibilities of staff in relation to data.	Strategic Director, Corporate Services and Governance	4	2	RED 8	The Council has a number of security measures in place to ensure that the 7th data protection principle can be met, however all data breaches so far have been down to staff not following our own policies and procedures.	Strategic Director, Corporate Services and Governance and Service Directors	2	2	AMBER 4	1) It is recommended that the SIRO and service directors reiterate with staff the need to adhere to the security policy and procedures and that firm action is taken against those who do not.	Strategic Director, Corporate Services and Governance and Service Directors
21	Risk of legal challenge arising from the Council's decision making processes examples of which are: Challenges to procurement processes; Allegations of ultra vires decisions; Allegations of inadequate consultations; Allegations that the Council has had insufficient regard to it's legal duties e.g. under equalities legislation; and Claims brought in employment tribunals.	The Council makes a myriad of decisions which can be challenged by those who are not happy with the impacts of such decisions. This takes on increasing prominence during difficult financial times when the Council may have to make decisions about reduction or cessation of services, reductions in staff and difficult or complicated procurement decisions. Getting decisions wrong can be costly in both financial and reputational terms.	Strategic Director, Corporate Services and Governance	3	3	RED 9	There are a range of controls in place including; Maintaining a properly resourced, experienced and trained legal and procurement workforce; Comprehensive quality assurance processes within legal for identifying risk; Cabinet and Council reports checked by legal officers; Training for officers and councillors on powers and probity in decision making; Access to expert advice from barristers and external solicitors if required.	Strategic Director, Corporate Services and Governance.	3	2	AMBER 6	Training for officers to be continued and developed where possible/appropriate.	Strategic Director, Corporate Services and Governance.
22	Risk of Implementation of the Gateshead Volunteers Plan, and acheivement of the 4 main aims including : 1 Enable Everyone to make a recognised contribution to their community and become the volunteering capital of England, 2 Deliver economic growth and wellbeing, 3 volunteering activity adds value to local service provision, enabling neighbourhoods to have services that would not be otherwise provided and enhancing core public services, 4 increase formal volunteering from 18% to 25% by 2015, increased informal volunteering from 34% to 40% by 2017 overall 20,000 new volunteers.	The plan sets out the outcomes, deliverables, priniciples, functions, resources and structures, and prorities and next steps. The Council is centralising all volunteering opportunities to enable a "one door" approach to all Gateshead Volunteers, which currently does not exist. Through the implementation of the plan monitoring techniques will also enable a relaistic overview of volunteer statistics within Gateshead. The implementation of the plan will improveand increase volunteering opportunities, improve publicity and marketing of opportunities, measure and evaluate and co-ordinate and support volunteering.	Service Director, Culture, Communities and Volunteering	3	3	RED 9	1) Establishment of central team dedicated to implemenation of the plan. 2) Volunteering Steering Group, and Volunteering Action group estabished within partners to support the implementation throughout all organisations. 3) Detailed consultation of the plan throughout the Council and relevant partners. 4) Dedicated Communications and marketing plan specifically around volunteering within Gateshead. 5) Development of the Volunteers Month throughout June to promote volunteering opportunities and raise awarenes. . 6) A centralised point of contact and team to co-ordinate all registered volunteers, with service area leads sitting behind the structure 7) Joined up partnership working with a range of organisations, including private, and voluntary and community sector.	Service Director, Culture, Communities and Volunteering	1	3	GREEN 3	1) Development and Implementation of the Gateshead Offer to support Capacity Building within VCS sector. Will develop standardised training packages and awareness raising information sessions 2) Development of Database to register all volunteers and provide them with tailored opportunities.	Service Director, Culture, Communities and Volunteering
23	HRA - Self Financing	Self financing for the HRA was introduced April 2012. Councils no longer receive a centrally distributed subsidy but are expected to manage housing stock within their own income streams. Part of the introduction of self-financing was the redistribution of <u>Key risks include;</u> • Increasing R&M expenditure • Social rent policy not being able to raise rents to be in line with RSLs • Increase in number of Right To Buys resulting in lower stock base • Management of debt against income streams. High interest rates • General Fund pressures impacting on HRA • Future Capital Requirements arising from stock condition survey & others such as estate regeneration • low Demand - Increase in Voids • Welfare reform/universal credit and the impact on rent arrears • Impact of componentisation in capital depreciation and downward revaluations which are charged to the	Strategic Director, Corporate Resources	3	3	RED (9)	1) 30 year Business Plan to capture key decisions and highlight risks to senior managers 2) Financial Model to assess sensitivities and cashflows 3) Treasury Management strategy & policies in place 4) Compliance with CIPFA voluntary code & Code of Practice 5) HRA minimum balance of £3m agreed by Cabinet	Strategic Director, Corporate Resources	3	3	RED (9)	More frequent monitoring of the HRA throughout the year Refresh model assumptions regularly	Strategic Director, Corporate Resources Working in partnership with; TGHC Strategic Director Communities and Environment

Appendix 2

Risk no	Description of risk [See comment box for details]	Comment	Risk Owner	Likelihood	Impact	Gross Risk Before Controls	Current controls	Responsibility for current controls	Likelihood	Impact	Net Risk After Controls	Proposed / Further controls	Responsibility for proposed controls
24	Risk of procuring and implementing a new HR and Payroll system	The current contract ends March 2016. Timescales for procuring and implementing a new corporate system are tight. If the system is not implemented in time there are a number of risks associated with payroll and HR activity.	Strategic Directors, Corporate Resources and Corporate Services and Governance	3	3	RED 9	A project team has been established to procure and implement a new HR and Payroll system	Strategic Directors, Corporate Resources and Corporate Services and Governance	1	3	GREEN 3	Regular update reports to Strategy Group	Strategic Directors, Corporate Resources and Corporate Services and Governance
25	Risk of not implementing the required changes resulting from the Care Act 2014	The Care Act 2014 introudces a number of changes for local authorities in the way that care and support services will be delivered. Key new features of the legislation are; • a duty to promote people's wellbeing and to prevent needs for care and support • a duty to provide an information and advice service about care and support • a requirement to carry out an assessment of both individuals and carers wherever they have needs, including people who will be "self-funders", meeting their own care costs • a duty to facilitate a vibrant, diverse and sustainable market of care and support provision and to meet people's needs if a provider of care fails. • a national minimum eligibility threshold for support – a minimum level of need which will always be met in every council area • a requirement to offer a universal "deferred payment" scheme, where people can defer the costs of care and support set against the value of a home they own • a duty in some cases to arrange "independent advocacy" to facilitate the involvement of an adult or carer in assessing needs and planning for care.	Strategic Director, Care Wellbeing and Learning	4	3	RED 12	A steering group has been established to monitor what requirements the new legislation will place on the Council, what the resource required will be and how the Council's services will need to be changed as a result. DH grant to contribute towards implementation costs of the Care Act	Strategic Director, Care Wellbeing and Learning	4	2	RED 8	Steering group to continue to work through the impact of the legislation Regular updates to Strategy Group Use of implementation grant to resource the implementation of the legislation	Strategic Director, Care Wellbeing and Learning
26	Failure to maintain effective partnership working between the Council and its partners (ie two or more independent bodies working collectively to achieve an objective)	All councils are required to monitor how well they are governed. The council has adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. As part of an internal audit review of partnership working, 2 recommendations were made to ensure the council's arrangements for partnership working continue to be effective	Strategic Directors, Policy, Economic Growth & Transformation and Corporate Services & Governance	2	2	AMBER 4	1) Partnership Risk Register - Service Directors have responsibility for ensuring this register is kept up to date. The register is kept within Policy, Transformation and Communications. 2) Guide to Partnership Working - this guide has been reviewed and agreed by Strategy Group on 28 January 2015. It is available via the Gateshead Strategic Partnership website 3) Protocol on Partnership Working - updated February 2015 and available on the Council's intranet site. 4) Service Directors should ensure they complete their operational risk register as appropriate for each partnership they are responsible for.	Strategic Director, Policy, Economic Growth & Transformation Strategic Director, Corporate Services & Governance	2	2	AMBER 4	Annual Internal Audit Review. In addition, annual review of the guide and partnership risk register will be undertaken by officers in Policy, Transformation and Communications Service, with colleagues in Legal, Democratic & Property Services	Strategic Director, Policy, Economic Growth & Transformation Strategic Director, Corporate Services & Governance

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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