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North Tyneside Council

Audit Committee

20 July 2020

Wednesday, 29 July 2020 commencing at 6.00 pm.

The meeting will be held virtually and live streamed

Agenda Item		Page
1.	**Apologies for Absence** To receive apologies for absence from the meeting.	
2.	**Declarations of Interest and Dispensations** You are invited to declare any registerable or non-registerable interests in matters appearing on the agenda, and the nature of that interest. You are also invited to disclose any dispensation in relation to any registerable or non-registerable interests that have been granted in respect of any matters appearing on the agenda.	
3.	**Minutes** To confirm the minutes of the meeting held on 20 November 2019.	**5 - 8**
4.	**Certification of Claims and Returns - Annual Report 2018/19** To give consideration to a report which summarises the results of work carried out by the external auditors on the Authority's claims and returns 2018/19.	**9 - 18**
5.	**Audit Planning Report for the Year Ended 31 March 2020** To give consideration to a report which provides the Committee with the basis to review the proposed audit approach and the scope for the 2019/20 Audit.	**19 - 60**

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Circulation overleaf …

Members of the Audit Committee

Kevin Robinson (Chair)
Malcolm Wilkinson (Deputy Chair)
Councillor Debbie Cox
Councillor Naomi Craven
Councillor Anthony McMullen
Councillor Janice Mole
Councillor Martin Rankin
Councillor Paul Richardson
Councillor Judith Wallace

Audit Committee

20 November 2019

Present: Mr K Robinson (Chair)
Mr M Wilkinson
Councillors D Cox, N Craven, A McMullen, M Rankin, P Richardson and J Wallace.

AC19/11/19 Apologies

An apology for absence was submitted on behalf of Councillor J Mole.

AC20/11/19 Substitute Members

There were no substitute members reported.

AC21/11/19 Declarations of Interest and Dispensations

There were no declarations of interest reported.

AC22/11/19 Minutes

Resolved that subject to the following amendment in respect of minute AC14/19 the minutes of the meeting held on the 24 July 2019 be confirmed as a correct record and be signed by the Chair:

AC14/19 - 2018/19 Annual Financial Report – it be recorded that Councillor Wallace voted against the recommendations contained in the report.

AC23/11/19 Annual Audit Letter

The Committee was presented with the Annual Audit Letter which had been prepared by the Authority's external auditors for the year ending 31 March 2019 and which had been presented to the Council in September 2019.

Resolved that the report be noted.

AC24/11/19 Annual Governance Statement

The Committee was advised of the outcome of a mid-year review of the Annual Governance Statement (AGS) action plan. The AGS explained how the Authority delivered good governance and how it reviewed the effectiveness of its arrangements.
At its meeting held on 29 May 2019 (minute AC4/19 refers) the Committee had noted that no significant governance issues had been identified and that the arrangements in place had been considered to be adequate by the Senior Leadership Team.

Whilst there had been no specific recommendations made, a range of issues had been highlighted which required continuous monitoring to ensure that they did not become significant governance issues in the future. Details of the controls in place were also outlined.

The Committee was also presented with details of the proposed method for compiling the evidence for, and preparing, the 2019/20 Annual Governance Statement. It was explained that this was similar to the process which had been used to complete the previous year's AGS. The completed AGS would be submitted to the May 2020 meeting of the Committee for its consideration and approval.

Resolved that (1) the outcome of the mid-year review of the Authority's action plan agreed as part of the 2018/19 Annual Governance Statement be noted; and
(2) the proposed method for compiling evidence for the 2019/20 Annual Governance Statement be noted.

AC25/11/19 Annual Statement of Accounts

Consideration was given to a report which set out the process for the closure of the 2019/20 accounts. It was explained that a detailed timetable had been prepared which outlined the key tasks required to be taken to meet the deadline for the closure of the accounts. Progress against each of the tasks was regularly reviewed so that appropriate action could be taken in relation to any slippage. An internal review had taken place to address the specific issues which had occurred during the closure of last years accounts. This included a session with the external auditors to ensure that any issues raised could be dealt with quickly and a good working relationship established.

It was explained that the good working practices which had been established for the closedown of the 2018/19 accounts would be continued including regular meetings with Valuation, the involvement of all areas of the Authority and the continued improvements made to the working papers to ensure that they were all of an appropriate high standard. Regular meetings would also be held with the Chief Finance Officer to ensure that any issues, risks or concerns were raised and dealt with in a timely manner.

It was also noted that an update on progress would be reported to the March 2020 meeting of the Committee. It was suggested that the current timetable that the Authority was working to be brought to this meeting. It was also suggested that members would meet at 5.45pm on the day of the meeting to receive the full accounts. It was also suggested that changing the day of the meeting be considered in consultation with the Head of Resources.

Resolved that the work outlined in the plan for the closure of the 2019/20 accounts be noted

AC26/11/19 Internal Audit Plan 2019/20 Interim Monitoring Statement

Consideration was given to a report which provided an interim monitoring statement in respect of the Strategic Audit Plan for 2019/20. At the mid-point of the year 25 of the original 39 assignments had either been completed or were in progress. In addition work had been undertaken to finalise three assignments from 2018/19. It was also reported that internal audit had undertaken special investigations or additional management requests which had not been included within the Audit Plan. It was also explained that the Strategic Audit Plan for 2018/19 would be kept under review and progress reported to future meetings of the Audit Committee.

There had been delays in starting some of the planned assignments due to resourcing issues during the year and these would be monitored closely during the remainder of the year to ensure that sufficient audit coverage was delivered. Various options for filling any vacancies within the team were considered.

The Committee was advised that a full outturn on the 2019/20 Annual Audit Plan would be presented to the May 2020 meeting.

Resolved that the progress detailed in the report and the levels of coverage achieved by internal audit at this stage of the year be noted.

AC27/11/19 Key Outcomes from Internal Audit Reports issued between May 2019 and October 2019

Consideration was given to a report which set out the key outcomes of internal audit reports issued between May and October 2019. It was noted that, based on the outcomes of the audits undertaken, the Authority's framework of governance, risk management and control was considered to be satisfactory overall.

For each of the reports issued the main points of concern were outlined together with the progress made or action taken to address any concerns. The report also provided examples of good practice.

Reference was made to the Deprivation of Liberty Safeguards and it was explained that the courts had recently issued clarification of the rules. It was also explained that there had been an increase in applications and this was a national issue rather than specific to North Tyneside.

Clarification was sought in relation to the debts in respect of school meals. It was explained that the Authority was looking at the introduction of a new school meals system to address the issue.

It was also suggested that the report could be amended to make it clearer to identify recommendations in relation to specific items in the body of the appendix and to include the date when a recommendation was made. It was also explained that it was intended to review the definitions used.

Clarification was also sought on the processes in place for those departments which missed the deadlines set out in the reports. It was explained that reports were agreed with management and the audit section followed up on the implementation of the recommendations and if appropriate they would agree an amended target. Audit would then follow up on the amended target. It was explained that the Authority operated 3 lines of defence. The first being that managers of the services managed risks within their own areas, the second that there were management and compliance systems in place within the Authority to provide a further level of assurance and Internal Audit provided the third line of defence.

Clarification was also sought on the reason that the issues around the lack of a seamless back up of internet connections and whether this could result in a potential loss of data was only classed as a medium risk. It was suggested that managers of the service be invited to the March meeting of the Committee to provide a response to members questions.

Resolved that (1) the key findings, good practice identified and the management action taken in response to Internal Audit Reports be noted; and
(2) the opinion of the Chief Internal Auditor, that the framework of governance, risk management and control was satisfactory overall, be noted.

AC28/11/19 Review of Audit Committee Arrangements

Consideration was given to a report which provided an update on the review of the Audit Committee arrangements which had taken place since the last meeting of the Committee in July 2019 (minute AC15/19 refers). It was noted that the first tranche of the review had been completed and reported to members. The second tranche of the review involved the Chair, along with the Group Assurance Manager, who had met with individual members of the Committee and examined the current arrangements and identified a number of suggestions to develop the Committee including:

- Developing onward reporting arrangements to those charged with governance within the Authority;
- Ensuring that the terms of reference of the Committee reflect the latest CIPFA (Chartered Institute of Public Finance and Accountancy) Position Statement on Audit Committees in Local Government;
- Working with Committee members to assess whether they feel that they have the required knowledge and skills necessary to carry out their role on the Committee and to develop a structured induction and training programme to address those areas where more knowledge was welcomed;
- Assisting the Committee to engage with a wide range of leaders and managers including the discussion of audit findings, risks and action plans with the responsible officers for the implementation of audit recommendations.

It was suggested that consultation take place with senior officers and cabinet members to prepare a programme of actions which will be presented to the March 2020 meeting of the Committee.

Reference was also made to the national review of the quality and effectiveness of audit and financial reporting of local authorities in England currently being carried out by Sir Tony Redmond, the former president of the Chartered Institute of Public Finance and Accountancy, which was expected to report in March 2020. It was explained that the outcomes of the report would be monitored and where appropriate any developments reported to a future meeting of the Audit Committee.

Resolved that (1) the final tranche of the review be undertaken prior to the March 2020 meeting of the Committee; and
(2) the Head of Resources provide a report to the March 2020 meeting of the Committee on the action which has been implemented to ensure that the Audit Committee arrangements reflect, as far as practicable, CIPFA’s good practice guidance.

Certification of Claims and Returns Annual Report 2018/19

North Tyneside Council

March 2020

Agenda Item 4

Building a better working world

Audit Committee
North Tyneside Council
Quadrant
The Silverlink North
Cobalt Business Park
North Tyneside
NE27 0BY

March 2020

Dear Audit Committee Members

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies, and must complete returns providing financial information to government departments. In some cases, these grant-paying bodies and government departments require appropriately qualified reporting accountants to certify the claims and returns submitted to them.

This report summarises the results of our work performed on North Tyneside Council's claims and returns for 2018/19.

We carried out our work in respect of the Council's Housing Benefit claim in accordance with the Housing Benefit Assurance Process ("HBAP") Module 1 2018/19, issued by the Department for Work and Pensions ("DWP").

We also carried out our work in respect of the Council's Teachers' Pensions End of Year Certificate in accordance with the Reporting Accountants Guidance TP05 (FY 18/19 Version 3), published on the Teachers' Pensions website.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you at the Audit Committee meeting on 25 March 2020.

Yours faithfully

Stephen Reid, Partner
For and on behalf of Ernst & Young LLP

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01 Housing benefits subsidy claim

Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£63,150,578
Amended/Not amended	Not amended
Audit findings	Yes
Fee – 2018/19	£6,550
Fee – 2017/18	£16,970 (predecessor auditor)

Findings from 2017/18

We set out below the one finding from the 2017/18 certification work that was identified by the predecessor auditor, along with information as to whether this issue was also identified in 2018/19.

1. Exclusion of State Retirement Pension (Rent Allowances)

Testing in 2017/18 identified one case where State Retirement Pension was incorrectly excluded when determining benefit entitlement. Further work by the Council identified that this error occurred due to the ‘information only’ marker in the Northgate system being incorrectly applied.

In 2018/19 we identified 19 cases where the ‘information only’ marker had been applied. Our testing of all 19 cases did not identify any instances where State Retirement Pension was incorrectly excluded.

Findings from 2018/19

We set out below the findings from the 2018/19 certification work.

1. War Pensions

Testing of our initial sample identified three instances where the total award of War Disablement Pension had been incorrectly applied. This had no impact upon the total of the housing benefit award provided to each claimant however, as the Council operates a full disregard policy.

2. Incorrect calculation of earnings (Rent Rebates)

Testing of our initial sample identified one instance where the claimant’s earnings had been incorrectly assessed. This has no impact upon the subsidy claimed. However, as this error could result in an overpayment of benefit we were required to extend our sample by 40 cases. From this additional testing, we identified one further case where the calculation of the claimant’s earnings was incorrect. The total value of these errors was an underpayment of £1. We have not extrapolated these errors as the Council has no eligibility to subsidy from DWP for benefits not paid, therefore they have no impact on the subsidy claim submitted to DWP.

02 Other assurance work

Other assurance work

Certification of Teachers' Pensions Return

During 2018/19, we acted as reporting accountants in relation to the Council's Teachers' Pensions return.

During our review of the Council's End Of Year Certificate ("EOYC") form, we identified the following matters which were reported to Teachers' Pensions:

1. Signed Claim Form

The original claim form was not signed by the Section 151 officer as required by the Reporting Accountants Guidance TP05 (FY 18/19 Version 3). This was amended in the revised EOYC form that was submitted to Teachers' Pensions.

2. Individuals included in the incorrect band

We noted seven instances where individuals were included in the incorrect contributions banding. This was due to an issue with the software used, that generates the contributions by tier, where the banding percentages were not updated. As a result, a total error of approximately £60,000 was identified by the Council, which is refundable to employees of the Council due to overpayments in 2018/19. This was amended in the revised EOYC form that was submitted to Teachers' Pensions.

3. Number of arithmetical differences

A number of arithmetical differences were identified when we recalculated the contribution values disclosed in the EOYC form. Teacher contributions were understated by £0.50 and Employer contributions were overstated by £11.92.

03 2018/19 certification fees

2018/19 certification fees

In previous years, the review of the Housing Benefit subsidy claim was covered by the Public Sector Audit Appointments Limited ("PSAA") contract. Fees for this work were determined by PSAA and made available on their website (www.psaa.co.uk). For 2018/19, management were required to appoint their own reporting accountants in relation to the Housing Benefit assurance process.

The certification of the Council's Teachers' Pensions return was already outside of the PSAA contract, therefore there has been no change in respect of this assurance work.

Our fees for the 2018/19 work are detailed below.

Claim or return	2018/19	2017/18
	£	£
Housing Benefits subsidy claim	6,550	16,970
Teachers' Pension return	2,463	2,767
Total	9,013	19,737

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North Tyneside Council

Audit Planning Report
Year ended 31 March 2020

UPDATE – July 2020

Building a better working world

Audit Committee
North Tyneside Council
Quadrant
The Silverlink North
Cobalt Business Park
North Tyneside
NE27 0BY

July 2020

Dear Audit Committee Members

We are pleased to attach our Audit Planning Report which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the committee's service expectations.

This Audit Planning Report summarises our assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. This audit plan was originally due to be presented to the Audit Committee meeting on 25 March 2020, which was cancelled due to Covid-19. We have since updated our original audit plan to take into account the impact of Covid-19 on our audit. This revised plan contains additional risks and detail regarding our updated approach.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 29 July 2020, as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Stephen Reid, Partner
For and on behalf of Ernst & Young LLP
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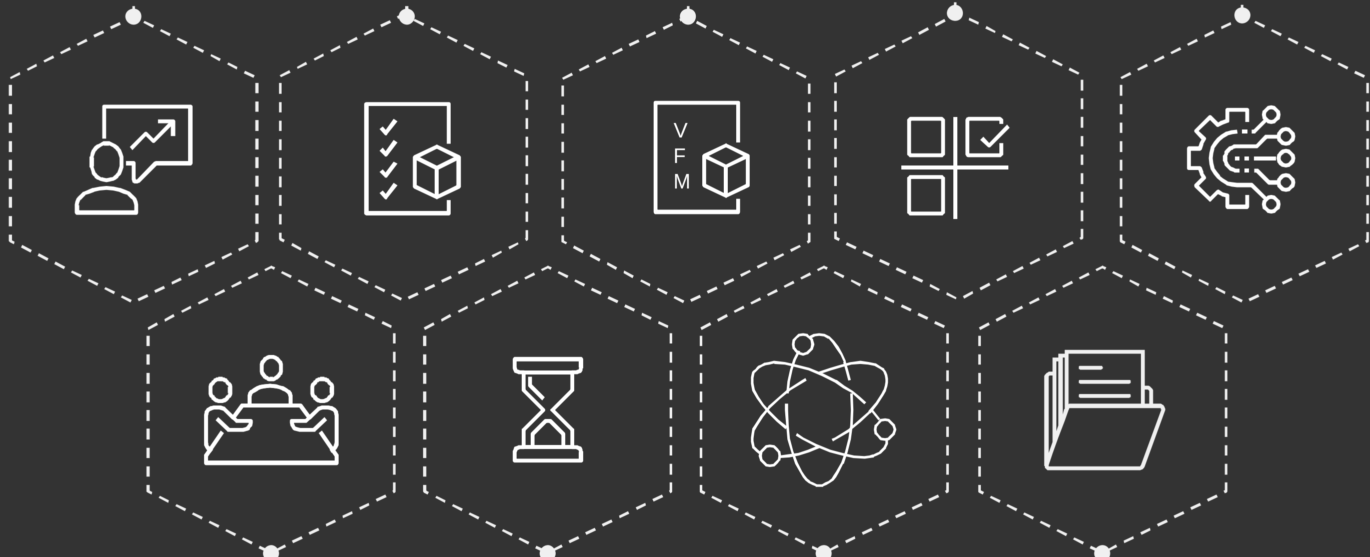

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01 Overview of our 2019/20 audit strategy

Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the audit and any changes in risks identified in the current year when compared to those identified in 2018/19.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition	Fraud risk/ Significant risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.
Misstatements due to fraud or error	Fraud risk/ Significant risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Valuation of land and buildings	Significant risk	No change in risk or focus	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty in their property valuations at 31 March 2020. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's external valuer. As a result of the material uncertainty clause we consider there is an increased risk of misstatement in the year end valuations.
Going Concern and the impact of Covid-19	Inherent risk	New area of focus	The CIPFA Code of Practice requires that local authority financial statements are presented on a going concern basis. However, the financial statements of the Council will need to accurately reflect the impact of Covid-19. This will include providing additional narrative about how Covid-19 is impacting the Council in 2020/21 and beyond.
Pension liability valuation	Inherent risk	No change in risk or focus	The pension liability is the most significant liability on the Council's balance sheet and is calculated through use of a number of actuarial assumptions. A small movement in these assumptions can have a material impact on the balance sheet. In addition, Covid-19 is likely to have a significant impact on the asset values of the Fund at 31 March 2020.

Overview of our 2019/20 audit strategy

Audit risks and areas of focus (continued)			
Risk / area of focus	Risk identified	Change from PY	Details
Group financial statements	Inherent risk	No change in risk or focus	In previous years, the Council has not produced group financial statements on grounds of materiality. However, due to increasing activity in the Council's subsidiaries, we believe that it is important the Council reassess their group boundary and consider the need to produce group financial statements in 2019/20.
IFRS 16 – Leases	Inherent risk	Risk removed in revised plan	Our initial audit plan produced for the 25 March 2020 Audit Committee included the implementation of IFRS 16 as a risk. This is because disclosure of the impact of this standard was expected in the 2019/20 financial statements. However, implementation of this standard has now been deferred as a result ofCovid-19 and therefore there is no longer a requirement to include this disclosure in the 2019/20 financial statements.

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Value for money risks and areas of focus			
Risk / area of focus	Risk identified	Change from PY	Details
Financial sustainability	Value for money risk	No change in risk or focus	The Council continues to operate in a challenging financial environment. The main risks to the Council's finances are reductions in central government funding, increased reliance on locally raised taxes, increased budget pressures and demand for services. These circumstances resulted in the Council forecasting significant pressures against budget throughout the financial year. However, the Council was able to report a positive outturn position of £1.1 million, largely due to the recognition of one-off dividend payments from Newcastle Airport and Kier North Tyneside. Looking ahead to 2020/21, the Council now also has to manage the additional financial burden of dealing with Covid-19 and the increased strain this will have on both services and the underlying financial position of the Council.

Overview of our 2019/20 audit strategy

Materiality

Planning materiality £11.6m

Materiality has been set at £11.6 million, which represents 1.8% of the prior year's gross expenditure on provision of services.

Performance materiality £8.7m

Performance materiality has been set at £8.7 million, which represents 75% of materiality. We are satisfied that the use of 75% remains reasonable as there was limited changes to the 2018/19 financial statements

Audit differences £0.58m

We will report all uncorrected misstatements relating to the comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account and the collection fund greater than £0.58 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Covid-19 Update – We have reassessed the materiality levels and we remain comfortable they remain appropriate. Further detail regarding our reassessment is included in section 4 of the report.

Audit scope

This Audit Planning Report covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit, we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of fraud in revenue and expenditure recognition*

Financial statement impact

Misstatements that may occur in relation to the risk of fraud in revenue and expenditure recognition affect the income and expenditure accounts. These accounts had the following values in the 2018/19 financial statements:

- Gross income: £610.3 million
- Gross expenditure: £645.4 million

What is the risk?

Under ISA 240, there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Local authorities have a statutory duty to balance their annual budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services. Achievement of budget is critical to minimising the impact and usage of the Council's usable reserves and provides a basis for the following year's budget. Any deficit outturn against the budget is therefore not a desirable outcome for the Council and management, and therefore this desire to achieve budget increases the risk that the financial statements may be materially misstated.

Our judgement is that the significant risk at the Council relates to the recognition of grants with terms and conditions attached, the potential improper capitalisation of revenue expenditure and the posting of year end accruals. We will therefore target our audit work in these areas.

What will we do?

We plan to perform the following procedures to address the risk:

- Review and test revenue and expenditure recognition policies, including consideration of the recognition of grant income;
- Review and discuss with management any accounting estimates relating to revenue or expenditure recognition, such as manual accruals, for evidence of bias;
- Test capital additions recognised in year to ensure that they are capital in nature and should not have instead been recognised as expenditure in the Comprehensive Income and Expenditure Statement; and
- Review a sample of expenditure transactions recorded in the ledger and payments made from bank accounts post year-end to confirm that the associated expenditure has been recorded in the correct period.

Our response to significant risks (continued)

Misstatements due to fraud or error*	What is the risk?	What will we do?
	The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	We plan to perform the following procedure to address the risk: • Identifying fraud risks during the planning stages; • Inquiry of management about risks of fraud and the controls put in place to address those risks; • Understanding the oversight given by those charged with governance of management's processes over fraud; • Consideration of the effectiveness of management's controls designed to address the risk of fraud; • Determining an appropriate strategy to address those identified risks of fraud; and • Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • Review of accounting estimates for evidence of management bias; and • Evaluating the business rationale for any significant unusual transactions.

Our response to significant risks (continued)

Valuation of land and buildings

What is the risk?	What will we do?
The value of land and buildings represents a significant balance in the Council's financial statements and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements in respect of key assumptions and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. In addition, The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty in their property valuations at 31 March 2020. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's external valuer. As a result of the material uncertainty clause we believe there is an increased risk of misstatement in the year end valuations that requires us to specifically focus on the disclosures made by the Council and also to perform additional procedures to gain comfort over the year end valuation and its susceptibility to material misstatement as a result of market uncertainties.	We plan to perform the following procedures to address the risk: • Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre). • Consider the annual cycle of valuations to ensure that land and buildings assets have been valued as part of a five-year rolling programme and investment properties have been valued on an annual basis as required by the CIPFA Code of Practice; • Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated; • Consider changes to useful economic lives as a result of the most recent valuation; and • Test accounting entries have been correctly processed in the financial statements. The additional procedures we plan to perform in response to the impact of Covid-19 are: • Consideration of the Council's asset base by type of asset and valuation methodology; • Engagement of EY's internal specialists to assess the likely impact of Covid-19 on the Council's property valuations; and • Consideration of the disclosure in the Council's financial statements concerning the material uncertainty to ensure it provides sufficient detail to the user of the financial statements regarding the potential impact, together with any impact on the form of our opinion.

Other areas of audit focus

We have identified the following areas of the audit that have not been classified as significant risks, but that are still important when considering the risk of material misstatement to the financial statements and disclosures.

What is the risk?	What will we do?
Going concern and the impact of Covid-19 The going concern auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee. The CIPFA Code of Practice requires that the financial statements of Local Authorities are prepared on a going concern basis. However, due to the unpredictability of the current environment, we believe that there is a need for additional disclosures to be made by the Council in the financial statements, that detail the full financial and operational impact of Covid-19 in 2020/21 and beyond. There is also an expectation that management will complete a detailed going concern assessment for 2019/20. This will focus on future funding streams and in particular cash flows for the Council for a period of at least 12 months from the date of the signing of the audit opinion. This assessment will then be used to support the Council's conclusion regarding whether the financial statements should be prepared on a going concern basis. Additional impact of Covid-19 - In addition to the risk above, we have set out on the following page some of the other ways Covid-19 may impact upon the financial statements of the Council.	We plan to perform the following procedures to address the risk: • Challenge of management's identification of events or conditions impacting going concern, including testing management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias; • Detailed review and testing of all narrative disclosures to ensure that the information presented in the financial statements is appropriate and represents a true and fair view of the Council's position; and • Detailed review and testing of any revisions to the Medium Term Financial Plan of the Council, as well as a separate focus on the liquidity of the Council, for a period of one year from the signing of our audit opinion.

Impact of Covid-19

Other potential impacts of Covid-19

The ongoing disruption to daily life and the economy as a result of the pandemic will have a pervasive impact upon the financial statements, which will need to reflect the impact of the pandemic upon the Council's financial position and performance. We have not identified further significant risks or areas of audit focus relating to Covid-19, other than those set out previously in this plan, but wish to highlight the wide range of ways in which Covid-19 has or could impact the financial statements. This includes, but is not limited to:

- LGPS liabilities – due to changes in market conditions at 31 March 2020, we have noted from other audits that the share of year end asset values has decreased significantly. We would therefore expect a decrease in the year end asset values of the Council;
- Collection Fund receipts – there may be an impact on collection rates for council tax and non-domestic rates if residents and businesses are unable to work and earn income due to the lockdown and other restrictions implemented to respond to the pandemic. For the current year's statements, this may impact the level of provision made against outstanding balances at 31 March 2020;
- Valuation of investments – the valuation of investments may be made more difficult due to the market volatility brought about by the impact of Covid-19 towards the end of the financial year, this is particular prevalent in relation to the valuation of Newcastle International Airport;
- Expected Credit Losses – there may be in an increase in the amounts written off as irrecoverable and the impairment of balances due to the Council at the reporting date due to the increased number of business and individuals unable to meet their financial obligations;
- Government support schemes – government support schemes, such as the grants payable to small and medium sized businesses, are likely to be new transaction streams for the Council and may require development of new accounting policies and treatments;
- Holiday and sickness pay – the change in working patterns may result in year-end staff pay accruals which are noticeably different to prior years;
- Annual Governance Statement– the widespread use of home working is likely to change the way internal controls operate. The Annual Governance Statement will need to capture how the control environment has changed during the period and what steps were taken to maintain a robust control environment during the disruption. This will also need to be considered in the context of internal audit's ability to issue their Head of Internal Audit opinion for the year, depending on their ability to complete the planned programme of work for 2019/20.

In addition to the impact on the financial statements themselves, the disruption caused by Covid-19 may impact on our ability to complete the audit as efficiently as normal. For example, it may be more difficult than usual to access the supporting documentation necessary to support our audit procedures. There will also be additional audit procedures we have to perform to respond to the additional risks caused by the factors noted above.

The changes to audit risks and audit approach will change the level of work we perform. This will impact the audit fee. We will agree changes to the audit fee with management and report back to the Audit Committee.

Other areas of audit focus

We have identified the following areas of the audit that have not been classified as significant risks, but that are still important when considering the risk of material misstatement to the financial statements and disclosures.

What is the risk?	What will we do?
Pension liability valuation The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Tyne and Wear Pension Fund. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019, this totalled £492 million. The information disclosed is based on the IAS 19 report issued by the Council's actuary, AON Hewitt. Accounting for this scheme involves significant estimation and judgement, and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. In addition, we have noted from other audits that Covid-19 has had a significant downwards impact on year end asset values. Therefore there is a risk that the Council's pension liability may increase.	We plan to perform the following procedures to address the risk: • Liaise with the audit team of Tyne and Wear Pension Fund, to obtain assurances over the information supplied to the actuary in relation to North Tyneside Council; • Assess the work of the Pension Fund actuary (AON Hewitt) including the assumptions they have used, by relying on the work of PwC, the consulting actuaries commissioned by the PSAA for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and • Review and test the accounting entries and disclosures made within the Council's financial statements in relation to the pension disclosures.
Group financial statements In previous years, the Council has not produced group financial statements on grounds of materiality. However, due to increasing activity in the Council's subsidiaries, we consider that it is important the Council reassess their group boundary and the need to produce group financial statements in 2019/20.	We plan to perform the following procedures to address the risk: • Review the Council's group boundary assessment to ensure that it is complete and all group entities have been identified; • Review the Council's assessment of qualitative factors, such as whether the Council is exposed to any commercial risk through its involvement with the group entity, in order to ensure the assessment is appropriate; and • Test the Council's quantitative assessment by agreeing all values included in the assessment to audited financial statements for each of the group entities.

03 Value for money risks

Value for money risks

Background

We are required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

For 2019/20, this is based on the overall evaluation criterion:

“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”

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

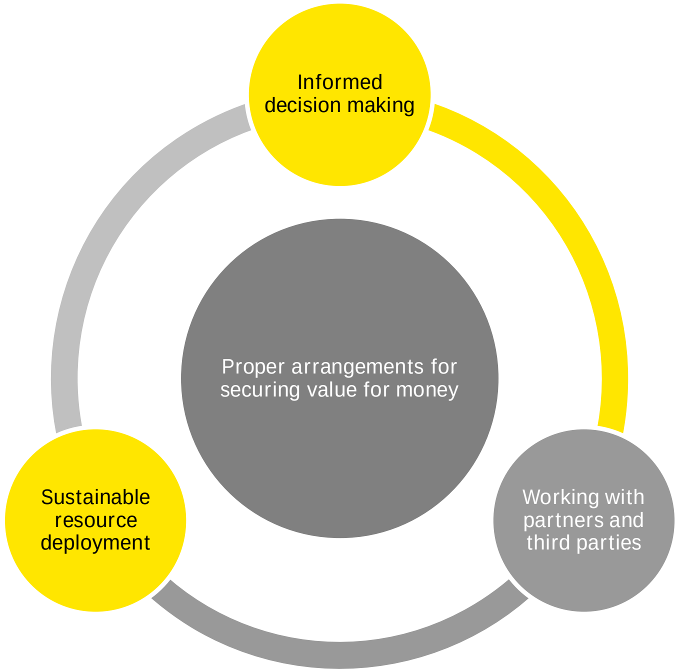
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your Annual Governance Statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money, and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks, there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risk noted on the following page which we view as relevant to our value for money conclusion.



Value for money risks

Financial sustainability	What is the risk?	What will we do?
	The Council continues to operate in a challenging financial environment. The main risks to the Council's finances are reductions in central government funding, increased reliance on locally raised taxes, increased budget pressures and demand for services. These circumstances resulted in the Council forecasting significant pressures against budget throughout the financial year. However, the Council was able to report a positive outturn position of £1.1 million, largely due to the recognition of one off dividend payments from Newcastle Airport and Kier North Tyneside. Despite reporting a year end surplus, the Council did incur a year end deficit against budget of £5.7 million in relation to Health, Education, Care and Safeguarding. This is due to significant demand for these services, which is unlikely to reduce in 2020/21. In addition, the Council now also has to manage the additional financial burden of dealing with Covid-19 and the increased strain this will have on both services and the underlying financial position. Central Government has made additional funding available to deal with the impact of Covid-19, however as at May 2020 the financial impact of Covid-19 on the Council was estimated to be around circa £25 million. Going forward the Council is therefore going to be required to revise its Medium Term Financial Plan, as well as identify additional savings to help ensure it is able to meet the financial challenges of 2020/21.	We plan to perform the following procedures to address the risk identified: • Select a sample of savings plans and assess their reasonableness, including testing of the assumptions used; • Review the specific plans in place for Health, Education, Care and Safeguarding to understand how the Council plans to control the overspends in this area; • Review the level of reserves to ensure they are sufficient to cover the Council's assessment of the minimum required to provide its statutory services; and • Review the revised Medium Term Financial Plan, that takes into account the impact of Covid-19, and test the reasonableness of a sample of the assumptions used. • Assess the overall financial position of the Council, including plans to address the pressures faced as a result of Covid-19.

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04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2019/20 has been set at £11.6 million. This represents 1.8% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.

As a result of the Covid-19 outbreak, we reassessed our materiality levels in order to determine whether the planning levels stated, remained appropriate. This process involved reviewing the control environment as a result of Covid-19 and the impact that this would have upon the users of the statements. Following the completion of our review the outcome was that the materiality levels remain appropriate based on the assessed criteria.

Gross expenditure on provision of services
£645.4m

Planning materiality
£11.6m

Performance materiality
£8.7m

Audit differences
£0.58m

We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £8.7 million which represents 75% of planning materiality. We have used a threshold of 75% as this is he second year we have audited the Council and we did not encounter any significant control weaknesses in the prior year. As a result, we have increased our threshold to 75% from the previous 50% level.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements relating to the comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account and the collection fund greater than £0.58 million.

Other uncorrected misstatements, such as reclassifications and corrected misstatements, will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.

Specific materiality – We have set a materiality of nil for remuneration disclosures, members' allowances and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these.

05 Scope of our audit

Our audit process and strategy

Objective and scope of our audit

Under the Code of Audit Practice, our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statements audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading the other information contained in the financial statements, and reporting whether it is inconsistent with our understanding and/or the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources.

Scope of our audit

Our audit process and strategy (continued)

Audit process overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2019/20, we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit

We will meet with internal audit review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan where they raise issues that could have an impact on the financial statements.

06 Audit team

Audit team

The engagement team continues to be led by Stephen Reid (Partner), who will have responsibility for ensuring that our audit is high quality and delivers value to the Council. He will continue to be supported by Stuart Kenny (Senior Manager), who will be responsible for the day-to-day direction of audit work and are the key points of contact for the finance team.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists will provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Capita (management's valuation specialist)
Pensions disclosure	AON Hewitt (management's actuarial specialist) EY Actuaries

In accordance with auditing standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019/20. This timetable has been updated to reflect the changes to the accounts preparation and audit timetable caused by Covid-19.

From time to time, matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary

Audit phase	Timetable	Audit Committee timetable	Deliverables
Planning - Risk assessment and setting of scopes	December		
	January		
	February		
Walkthrough of key systems and processes Interim audit testing	March	Audit Committee (Cancelled)	Original Audit Planning Report
	April		
	May		
	June		
Year end audit testing	July	Audit Committee	Revised Audit Planning Report
Year end audit testing (continues)	August		
Audit completion procedures	September	Audit Committee	Audit Results Report Audit opinions and completion certificates
	October		Annual Audit Letter

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08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance" require us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence; and ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Written confirmation that all covered persons are independent; ▸ Details of any inconsistencies between the FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non–audit services if the service has been pre-approved in accordance with your policy.

Overall assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Stephen Reid, your audit engagement leader and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you.

At the time of writing, there are no long outstanding fees, there are no non-audit fees other than those relating to certification of claims and returns, and there are no business relationships. Therefore no additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Independence

Relationships, services and related threats and safeguards

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

EY Transparency Report 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 30 June 2018 and can be found here:

https://www.ey.com/en_uk/who-we-are/transparency-report-2019

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.

09 Appendices

Appendix A

Fees

Given the ongoing reviews into corporate reporting, including the responsibilities of directors and the audit profession, there are a significant number of factors that continue to impact audit fees. We have discussed the impact on our audit fees of the changing audit environment with management and bring these to the attention of the Audit Committee. In summary:

- Recent high profile corporate failures have weakened public trust and confidence in both the auditing profession and business at large. Multiple ongoing regulatory reviews continue to reshape the corporate reporting environment and raise fundamental questions about the purpose, product and role of an external audit, as well as the accountability of auditors and those charged with governance.
- Financial reporting and decision making continues to become increasingly complex. Additionally, there has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address stakeholder understanding and regulatory expectations on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.

In continuing to respond to these factors we seek higher levels of corroborative evidence, including increasing sample sizes and engage with our internal specialists more extensively on a wider array of matters. Additionally, we continue to increase our investment in data analytics tools to allow us to test more transactions to a greater level of detail and enhance audit quality. As a firm our compliance costs have doubled over the past five years.

On 10 February 2020 EY issued a letter to all Local Government clients who opted in to the Public Sector Audit Appointments Limited (PSAA) contract setting out our concerns regarding the future sustainability of the UK public audit profession. Although, the Council is not part of the PSAA contract the concerns included in the letter equally apply. We have shared this letter with management,

Impact of Covid-19 on fees

Covid-19 has resulted in changes to the way the Council operates as well as changes to our audit risks, which are outlined in this plan. These changes will have an impact on the level of audit work we need to perform to conclude on the financial statements. We will report all fee variations that are agreed with management to the Audit Committee.

	Planned fee 2019/20	Final fee 2018/19
	£	£
Audit fee	145,500	85,200
Audit fee variation*	TBC	26,250
Total Audit fee	145,500	111,450
Non-audit work – Housing Benefit certification work	12,800	6,550
Non-audit work – Other certification work	10,500	4,926
Total other non-audit services	23,300	11,426
Total fees	168,800	122,876

All fees exclude VAT.

* * In our 2018/19 Audit Results Report, which we presented in July 2019 to the Audit Committee, we highlighted that a fee variation was necessary due to a number of one off factors. These included the implementation of new accounting standards IFRS 9 and IFRS 15, the revaluation of the Council's shares in Newcastle International Airport Limited, our review of the Council's Group Accounts Assessment, the additional procedures required as a result of identifying two prior period adjustments and the additional procedures required in relation to the accounting for the McCloud judgement. We have agreed the additional fee included in the table above with management for these procedures.

Appendix A

Fees

Summary of key regulatory factors

1. Status of sector: Financial reporting and decision making in local government has become increasingly complex, for example from the growth in commercialisation, speculative ventures and investments. This has also brought increasing risk about the financial sustainability/going concern of bodies given the current status of the sector.

2. Audit of estimates: There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.

3. Regulatory environment: Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice, are all shaping the future of Local Audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors.

4. Resourcing: As a result of the above, public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables.

   We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff. We and other firms in the sector face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. We need to remunerate our people appropriately to maintain the attractiveness of the profession, provide the highest performing audit teams and protect audit quality. We acknowledge that local authorities are also facing challenges to recruit and retain staff with the necessary financial reporting skills and capabilities. This though also exacerbates the challenge for external audits, as where there are shortages it impacts on the ability to deliver on a timely basis.

To respond to these factors we have to:

- Increase our sample sizes, seek higher levels of corroborative evidence and engage with our internal specialists on a wider array of matters;
- Increase our investment in data analytics tools to allow us to test more transactions to a greater level of detail and enhance audit quality; and
- Invest in our audit quality infrastructure, as a firm our compliance costs have doubled as a proportion of revenue over the past five years.

Appendix B

Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee.

Required communications	What is reported?	Our reporting to you When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties	Engagement Contract
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	Engagement Contract
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified	Audit Planning Report – July 2020
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report – September 2020

Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our reporting to you When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Audit Results Report – September 2020
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management	Audit Results Report – September 2020
Fraud	• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud	Audit Results Report – September 2020
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit Results Report – September 2020

Appendix B

Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our reporting to you: When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement associate partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report – July 2020 Audit Results Report – September 2020
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report – September 2020
Consideration of laws and regulations	• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of	Audit Results Report – September 2020
Internal controls	• Significant deficiencies in internal controls identified during the audit	Audit Results Report – September 2020 Annual Audit Letter – October 2020

Appendix B

Required communications with the Audit Committee (continued)

		Our reporting to you
Required communications	**What is reported?**	**When and where**
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report – September 2020
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report – September 2020
Auditor's report	• Key audit matters that we will include in our auditor's report • Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – September 2020
Fee reporting	• Breakdown of fee information when the Audit Planning Report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit Planning Report – July 2020 Audit Results Report – September 2020
Certification work	Summary of certification work undertaken	Certification Report – March 2021

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Appendix C

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in Section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	• Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. • Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. • Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. • Concluding on the appropriateness of management's use of the going concern basis of accounting. • Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. • Reading other information contained in the financial statements, including the statement that the annual report is fair, balanced and understandable, and that the Audit Committee's reporting appropriately addresses matters communicated by us to the Audit Committee, and reporting whether it is materially inconsistent with our understanding and the financial statements; and • Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit, we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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Audit market reform and revised auditing standards and guidance

Audit Committee update

January 2020

Building a better working world

Agenda Item 6

Next steps regarding the key regulatory and independent reviews – January 2020

Effectiveness review of audit

Brydon Review

- Responses to a Call for Views were due in June 2019
- EY was represented on the Auditor Advisory Board
- A final report was published in December 2019, comprising 64 main recommendations
- Proposed changes include corporate reporting, the audit process and product

Increasing competition in the audit market

CMA Market Study/BEIS Consultation

- The CMA published its final report in April 2019, setting out four recommendations and citing a need for legislation
- The Government consulted on the recommendations in July 2019; the consultation closed in September 2019
- A policy paper is expected in early 2020 with a further consultation to follow; Autumn 2020 is the earliest date for legislation

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Strengthening the audit regulator

Kingman Review/BEIS Consultation

- The Kingman Review's final report was issued in December 2018, yielding 83 recommendations
- The Government consulted on the recommendations in March 2019; the consultation closed in June 2019
- A consultation on a Sarbanes-Oxley (SOX) regime for the UK, the PIE definition and corporate failure is expected in early 2020

Enhancing auditor independence

2016 Ethical Standard Review

- In July 2019 the FRC issued an exposure draft for consultation on the Revised Ethical and Auditing Standards; the consultation closed in September 2019
- The Revised Ethical Standard was published in December 2019, changes include an extension of prohibitions on non-audit services

Evolving corporate reporting

FRC Future of Corporate Reporting

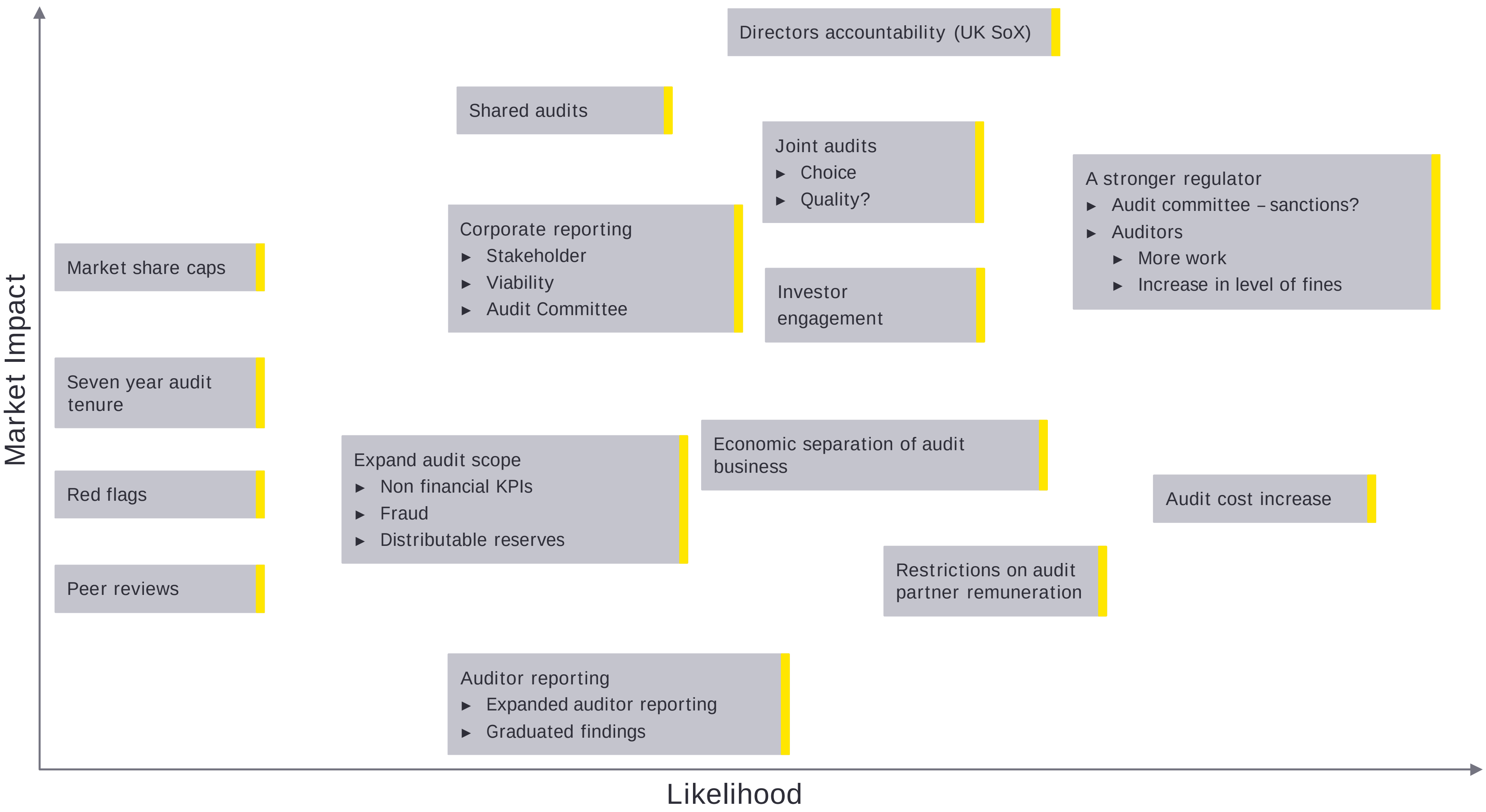
- In October 2018 the FRC launched a review of the future of corporate reporting, led by Paul Druckman
- In October 2019 the FRC opened a survey on stakeholder views of corporate reporting
- The review is set to conclude in 2020 with the FRC's publication of thought leadership
- EY is the only Big Four firm represented on the Review's Advisory Board

Overseeing audit reform

BEIS Select Committee Review

- Following evidence hearings, a final report setting out bold recommendations was issued in April 2019; the Government responded by indicating that many of the issues raised are the subject of consultations or under consideration by ongoing reviews
- In November 2019 the Select Committee issued a letter urging the Government to act on its recommendations, stating that reform of the sector is "urgently needed"

Potential outcomes of regulatory reviews – January 2020



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CMA four key recommendations: potential implications

Impact	Greater scrutiny of audit committees	Mandatory joint audit or peer review for FTSE 350	Operational split between Big Four audit and non-audit	A five-year implementation review, inc changes to tendering period and independent appointment of auditors
Business process	► Introduction of mandatory minimum standards for auditor appointment and oversight ► Audit committee time required to produce reports to regulator during tendering and throughout the audit ► Potential observer from Regulator at audit committee meetings	► More board, audit committee and management time required to appoint, oversee and coordinate two auditors ► New audit committee reporting requirements doubled ► Greater pressure for audit committees and finance functions in meeting already challenging reporting cycles	► Greater pressure on audit committees and finance functions due to restricted or delayed access to specialists	► Continued uncertainty created by more reviews and changes ► Further audit committee and management time
Quality and choice	► Greater accountability and transparency potentially leading to enhancements in auditor selection and oversight ► Opportunity for increased engagement with shareholders	► Audit quality reduction due to capability/ capacity gap and joint audit programme complexities ► Management's ability to "opinion shop" between firms ► Reduces choice, esp. when coupled with mandatory rotation and non-audit services ban ► Resource scarcity	► Access to specialists may be restricted or delayed ► Profession's attractiveness to recruit and retain high calibre talent and people with required skills/experience will likely diminish ► Reduced financial resilience may impact on acceptance and continuation	► Reduced choice due to some audit firms declining to participate in frequent, costly tenders and/or loss of control of which auditors to appoint ► Benefit of 'fresh eyes' outweighed by loss of deep auditor understanding derived from longer term tenure
Cost	► Increased internal costs, including senior management time, to meet regulatory requirements	► Increase in audit fees has been estimated at between 10-70% without a clear benefit	► Transfer pricing for internal specialists at market rates will increase cost of audit ► Costs of separation will increase the cost of audit ► Wage inflation	► Increased internal costs, including senior management time ► Increased audit cost if rotation period shortened

Brydon recommendations

The main recommendations are directed towards different, and in some cases multiple stakeholders including boards, audit committees, auditors, the regulator and investors. EY suggests that for now boards focus on the recommendations most relevant to companies – in particular the readiness of the organisation for a potential internal control attestation regime.

Potential impact on directors

- If implemented directors, for example, would be required to publish statements on public interest and resilience, with a mid-year risk report issued for shareholder comment to allow input to the subsequent year's external audit plan.
- In particular, the CEO and CFO would be required to provide an annual attestation to the board on the effectiveness of the company's internal controls over financial reporting. The disclosure of a material failure would trigger an external audit of these controls for three subsequent years.

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Potential impact on auditors

- Auditors would also be required, amongst other things, to extend the scope of their audit beyond the financial statements and would be more explicitly required to find material fraud. They would also exercise suspicion as well as scepticism and apply a new descriptor for financial reporting statements (to be enshrined in UK company law), replacing 'true and fair' with the term 'present fairly, in all material respects', to reflect the use of estimates and judgements more effectively.
- A statement would also be included in the audit report as to whether the directors' s172 stakeholder engagement disclosure is 'based on observed reality, on the basis of the auditor's knowledge of the company and its processes'. The report also recommends the establishment of a corporate auditing profession, to follow a set of principles within a new regulatory framework that includes but is not limited to the statutory audit of financial statements.

The challenge for the Government

- The Government now has the task of reviewing the recommendations alongside reports from other reviews into the audit market and regulatory regime. It committed to do this before making any decisions on which changes should be taken forward, and to what extent legislation may be required.
- The combination of all this with a full parliamentary timetable and impending challenge of Brexit, makes it difficult to predict an implementation timetable. What is certain is that they will require a combination of regulatory and voluntary measures, with a pragmatic approach towards implementation by all concerned.

Board considerations

Board accountability

- The new regulator will focus on increased accountability for all directors
- The implementation of a strengthened framework around internal controls – benefit vs cost
- Expanded Audit Committee reporting and regulatory oversight
- Increased investor engagement, possibly similar to that with the Remuneration Committee
- ‘Red flag’ reporting by the auditor to the regulator

Cost

- Expanded finance functions to meet regulatory expectations
- The introduction of additional regulation, joint audits, and operational separation, for the Big Four, will materially increase the cost of audit. Access to specialists may be restricted
- Management time is increased by coordinating two auditors on mandatory joint audits, management of peer reviews and increased requirements on regulatory compliance

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Quality

- Consideration of whether challenger firms have the capacity and capability, in terms of resource, technology and global coverage and willingness to invest to undertake joint audits
- Management ability to play one firm off against the other in joint audit

Corporate Reporting

- The Brydon and Druckman Reviews, as well as the Review of the 2016 Ethical and Auditing Standards, may change both corporate reporting and the scope of audit
- There may be an extension from shareholder to stakeholder responsibility

Choice

- Joint audit will require a challenger firm to be selected – scaling issues
- If market becomes more attractive new entrants should appear
- The Revised Ethical Standard result in further restrictions on the provision of non-audit services

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ED None

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ITEM 7

Title: Annual Statement of Accounts 2019/20

North Tyneside Council
Report to Audit Committee
Date: 29 July 2020

Report from Service: Finance

Report Author: Janice Gillespie, Head of Resources (Tel: 643 5701)

Wards affected: All

PART 1

1.1 Executive Summary:

1.1.1 The purpose of this report is to provide the Audit Committee with an update in respect of the closure of the 2019/20 accounts.

1.2 Recommendation(s):

1.2.1 It is recommended that the:

(a) Audit Committee note the work outlined in respect of the closure of the 2019/20 accounts.

1.3 Council plan and policy framework:

1.3.1 The Annual Statement of Accounts covers all the service responsibilities as identified within the Council Plan.

1.4 Information:

1.4.1 The Ministry of Housing, Communities and Local Government (MHCLG) has confirmed the details of the changes made to the Accounts and Audit Regulations 2015 in a letter to authorities on 3 April 2020. The Accounts and Audit (Coronavirus) Amendments Regulations 2020 (SI 2020/404) extend the statutory audit deadline for 2019/20 for all local authorities, apart from health service bodies.

1.4.2 The publication date for audited accounts has moved from 31 July to 30 November 2020 for all local authority bodies.

1.4.3 This represents a substantial change to the regulations as before the audited set of accounts was required to be approved and subsequently published by no later than 31 July 2020.

1.4.4 To give local authorities more flexibility, the requirement for the public inspection period to include the first 10 working days of June has been removed. Instead, local authorities must commence the public inspection period on or before the first working day of September 2020. For the Authority the public inspection period will begin on Monday 6 July 2020 and run for 10 working days.

1.4.5 A draft set of 2019/20 accounts has been produced and published on the Authority's website. A summary of the main points in the accounts will be presented to the Audit Committee at its meeting.

1.4.6 The Authority's external auditors will begin their audit of the 2019/20 accounts on 6 July 2020 and this will run through to mid-September with the aim of having a signed off set of accounts published by the end of the month.

1.5 Decision options:

The options available are:

(a) To accept the recommendations made in section 1.2.1.

1.6 Reasons for recommended option:

The production of an Audited Annual Statement of Accounts is a requirement of the Accounts and Audit Regulations 2015.

1.7 Appendices:

None.

1.8 Contact officers:

Janice Gillespie – Head of Resources - Tel: 643 5701
Claire Emmerson – Senior Manager, Financial Strategy & Planning – Tel 643 8109
Peter Weir – Principal Accountant – Tel 643 8066

1.9 Background information:

The following background papers and reports have been used in the compilation of this report and are available for inspection at the offices of the author:

(a) Accounts and Audit Regulations 2015

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

There are no financial implications as a result of the recommendations within this report.

2.2 Legal

The Annual Statement of Accounts is produced annually in accordance with the Accounts and Audit Regulations 2015.

2.3 Consultation/community engagement

Consultation will take place with the key personnel and interested parties involved in the closedown process.

2.4 Human rights

There are no Human Rights implications as a result of the recommendations in this report.

2.5 Equalities and diversity

There are no Equalities and Diversity implications as a result of the recommendations in this report.

2.6 Risk management

A risk log has been set up which identifies the key risks and issues associated with the closedown process. The management of these risks are part of the overall process.

2.7 Crime and disorder

There are no crime and disorder implications as a result of the recommendations in this report.

2.8 Environment and sustainability

There are no environment and sustainability implications as a result of the recommendations in this report.

DRAFT – Subject to Audit

North Tyneside Council

ANNUAL FINANCIAL REPORT 2019/20

Table of Contents

1.0 Preface

1.1 Message from Head of Resources

The financial year has seen the Authority continue to manage its finances despite ongoing funding reductions and continuing cost pressures in respect of Adult and Children's social care services.

The "Our North Tyneside Plan 2016-2019" continued to set the vision and a clear context for the setting of the 2018-2020 Financial Plan and for the financial decisions and operational delivery of services for the financial year 2019/20. The Authority has been required to make significant efficiency savings in recent years and the ongoing uncertainty for the future of how Local Government will be financed into the future remains a significant challenge for the Authority when considering its approach to the ongoing delivery of the Our North Tyneside Plan.

2019/20 saw the reduction in Central Government core funding continue, taking the total since 2013/14 to approximately 47.5%, this is in common with other local authorities. The Authority is experiencing budget pressures as a result of this level of reduction in funding alongside increasing demand for services. However, the Authority continues to seek to make the best possible use of available resources, this responsibility is shared by Members and senior officers of the Authority.

Despite the financial challenges the Authority has still continued to deliver a high standard of services in 2019/20 and continues to work with all our partners to ensure that we continue to look forward in order to deliver the best possible services to the residents of North Tyneside. The Finance Service itself operates in an environment of continuous change, and this year the Service has demonstrated a strong team approach of all staff both within the Authority and our partners to ensure the delivery of the Annual Financial Report on time.

This Financial Report sets out the results of the Authority's financial activities for the year ended 31 March 2020. The Narrative Statement provides more information on the performance (financial and non-financial) of the Authority during this period together with an overview of any significant issues facing the Authority in future years.

As the Authority headed towards the year-end, we saw the beginning of the impact of the COVID-19 pandemic. This has had an impact on the Authority both operationally and financially and only time will tell us the longer term impact to the residents and businesses of the borough and what that could mean for the Authority.

We hope that this document is both informative and of interest to readers, by providing information about the money that the Authority has received and spent, and to also provide assurance that the governance arrangements in place ensure that the financial standing of the Authority is secure.

The Authority is keen to try to improve both the quality and suitability of information provided and your feedback would be welcome.

Janice Gillespie
Head of Resources
Date: 3 July 2020

1.2 Narrative Statement

Introduction

The purpose of the Annual Financial Report is to give members of the public, electors, those subject to locally levied taxes and charges, elected members, employees and other interested parties clear information about the Authority's finances. This will allow readers to:

- Understand the financial position of the Authority and the final position for 2019/20; and
- Have confidence in the Authority's stewardship of public money and that it has been used and accounted for in an appropriate manner.

This Statement of Accounts details the Authority's financial position for the financial year 1 April 2019 to 31 March 2020. It has been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom' (the Code). The Code of Practice constitutes "proper accounting practice" under the terms of the Accounts and Audit Regulations 2015, the Local Government and Housing Act 1989 and, for audit, the Local Audit and Accountability Act 2014.

From 2019/20 the Statement of Accounts also includes group information which incorporates the Council's main subsidiary, North Tyneside Trading Company (NTTC). NTTC is materially significant to the overall financial position of the Authority and is therefore consolidated into group financial statements. This is the first year that the Authority has prepared Group Accounts.

Governance

The Authority has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Delivering Good Governance in Local Government Framework. Further information is available in the Annual Governance Statement which will be reviewed by the Audit Committee on 29 July 2020. The Statement explains how the Authority has complied with the Code and also meets the requirements of the Accounts and Audit Regulations 2015.

The purpose of this Annual Financial Report is to provide a summary of the financial position of the Authority as at 31 March 2020 together with details of the non-financial performance of the Authority during 2019/20. The report enables readers to focus on the key elements of the Statement of Accounts. The report contains the following sections:

- About North Tyneside;
- Key Facts about North Tyneside Governance;
- Financial Performance of the Authority 2019/20;
- Non-Financial Performance of the Authority 2019/20;
- Significant Issues for 2020/21 and beyond; and
- Explanation of the key Financial Statements.

About North Tyneside

- North Tyneside Council is one of five local authorities in the Tyne and Wear conurbation and is closely connected to Northumberland placing the borough at the heart of a wider strategic area encompassing over 1.4 million people.

- The borough covers an area of approximately 6,026 square miles (2,326.5 square km) and 207,913 residents. The geographical position of North Tyneside means that it has a common boundary with Northumberland County Council and Newcastle City Council, and whilst the River Tyne presents a barrier, with South Tyneside Council.

- North Tyneside has a proud industrial heritage and was traditionally as for many parts of the North East, a centre of heavy industry with, for example, the Swan Hunter shipyard in Wallsend, and the export of coal. Today most of the heavy industry has ceased, but the borough has seen, through a strong approach to regeneration, a diverse economy develop comprising of traditional manufacturing and engineering industries as well as a mix of exciting new sectors including digital, health and life sciences and renewable energy.

- Regeneration both in terms of employment opportunities and physical redevelopment is recognised as being very important to the future of the borough. Alongside that, the delivery of a great housing, cultural and heritage offer are ongoing priorities of the current administration. There are 5,190 enterprises that operate within the borough.

- North Tyneside remains one of the safest Metropolitan areas in England and the safest across the North East after the largely rural area of Northumberland.

- The borough attracts around 5.8 million visitors, who contribute around £289 million to the local economy. Tourism supports almost 3,700 jobs and this trend is expected to continue to improve following the opening of Spanish City in 2018 after the £19.821m refurbishment. This was part of the broader regeneration of the coastline between St Mary’s Lighthouse and Cullercoats Bay that attracted more than £36 million of new council and private sector investment.

- North Tyneside has a great education system that ensures the majority of children and young people are ready for school, work and life.

- The number of registered businesses in North Tyneside has continued to grow and has increased by 7,000 jobs since 2015. There are now 87,000 jobs in the borough.

- Cobalt and Quorum Business Parks enjoy high occupancy levels and employ around 20,000 people.

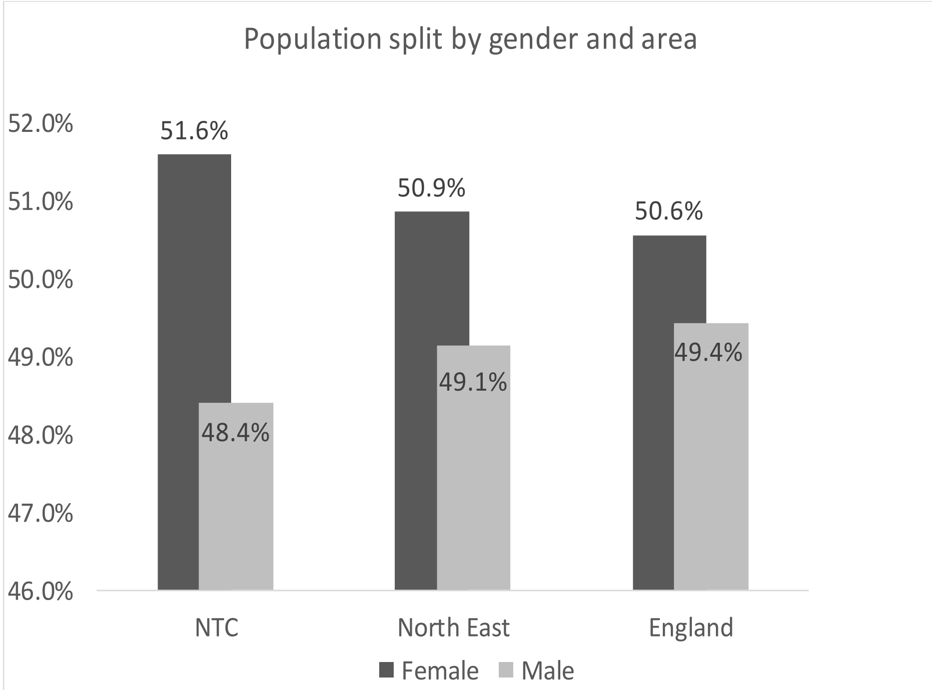
Positive Factors – Thriving in North Tyneside

- 88% residents use our parks and green spaces. 61% use sports & leisure facilities
- 60% use theatres, concert halls and arts venues
- 58% residents use our local libraries
- 70.2% of children achieve a good level of development by the end of reception
- 97.1% of 16-17 year olds are in education, training and employment
- 89% of residents feel safe when outside in their local area during the day.
- 74.2% of adults are in employment

Source: Residents Survey (Sept/ October 2018)

Population

The following graph shows population estimates as at March 2020 for North Tyneside, the North East and England by gender:



Source: Office for National Statistics

Key Facts about North Tyneside Governance

North Tyneside Council is a multifunctional and complex organisation. Its policies are directed by the political leadership and implemented by the Senior Leadership Team (SLT) and officers of the council.

Political structure in 2019/20

North Tyneside has 20 wards and the Authority consists of 60 Councillors and an Elected Mayor. Following the local election in May 2019 the political make-up of the Authority was:

- Labour Party - 50 Councillors plus a Labour Elected Mayor
- Conservative Party - 7 Councillors
- Liberal Democrat Party - 1 Councillor
- Independent - 1 Councillor
- Vacancy - 1 Councillor

The Mayor has responsibility for the appointment of the Cabinet, allocations of portfolios and the delegation of Executive function. Cabinet Members are held to account by a system of scrutiny which is set out in the Constitution. Scrutiny of executive decisions for 2019/20, including the setting of the 2019/20 budget has been undertaken by either the Overview and Scrutiny Committee or the Budget Study Group.

Management Structure

Leading the implementation of the Council Plan Priorities is the organisational structure of the Council headed by the SLT, led by the Chief Executive, Paul Hanson.

During 2019/20 the Senior Leadership team comprised the Chief Executive, Director of Public Health and 7 Heads of Service.

The Head of Resources attends SLT not only as a senior officer of the Authority but in her role as the Authority's Chief Finance Officer (the officer responsible under statute for the administration of the Authority's financial affairs).

The SLT works together to achieve the most effective services possible for the borough. It also ensures that North Tyneside plays a full part in national, regional and sub-regional activities.

Financial Performance of the Authority 2019/20

The Authority incurs both revenue and capital expenditure each year. Revenue expenditure is usually used to purchase goods and services that are consumed within one year; these are financed from Council Tax, Government Grants, and Non-Domestic Rates under the rates retention scheme and other income such as fees and charges. Capital expenditure is money spent on assets which have a useful life in excess of one year; these are financed by capital receipts, borrowing, and grants and contributions.

The Authority has well established and robust financial management procedures in place to monitor budgets and mitigate any forecast over spending. Revenue and capital budget monitoring information is reported to Cabinet throughout the year. Note that the information below presents the Authority's position only, rather than that of the group, as the wider group position is of lesser significance to local taxpayers and other interested parties.

Revenue Expenditure

The budget for 2019/20 was approved by full Council at its meeting of 21 February 2019. The net General Fund revenue budget was set at £155.730m including Efficiency Programme savings of £10.533m. The following table summarises the financial position of the Authority as at 31 March 2020. Accounting adjustments relate mainly to capital accounting entries which are adjusted to enable a clearer understanding of each service's final position.

Table 1 – Financial Position of Authority for year ended 31 March 2020

Service	Budget £000s	Final Outturn £000s	Variance £000s	Accounting Adjustments £000s	Adjusted Variance £000s
Chief Executive Office	(101)	(191)	(90)	0	(90)
Commissioning & Asset Management	21,445	10,809	(10,636)	10,813	177
Corporate Strategy	419	416	(3)	0	(3)
Environment, Housing & Leisure	42,140	38,565	(3,575)	2,938	(637)
Health, Education, Care & Safeguarding	67,464	73,202	5,738	19	5,757
Law & Governance	19	223	204	0	204
Regeneration & Economic Development	1,259	1,730	471	(196)	275
Resources	1,538	2,002	464	(12)	452
Central Items	1,534	10,958	9,424	(13,562)	(4,138)
Sub Total Services	**135,717**	**137,714**	**1,997**	**0**	**1,997**
Support Services	20,013	20,013	0	0	0
Transfers to/(from) specific reserves	0	(1,997)	(1,997)	0	(1,997)
Total Net Expenditure	**155,730**	**155,730**	**0**	**0**	**0**

	Budget £000s	Final Outturn £000s	Variance £000s
Funded By:			
Council Tax Receipts	(94,364)	(94,364)	0
Business Rates	(60,001)	(60,001)	0
Transfer from Collection Fund	(1,365)	(1,365)	0
Total Funding	**(155,730)**	**(155,730)**	**0**
Reduction to Balances	0	1,238	1,238
Balances brought forward	(8,403)	(8,403)	0
Balances carried forward	**(8,403)**	**(7,165)**	**1,238**

The reduction in balances above relates to a decrease in school balances of £1.434m offset by an increase in the General Fund balance of (£0.196m). Whilst some individual school balances have increased, the value of individual school deficits has increased which contributes to the reduction in overall balances.

The final outturn figures shown in the above table include capital and other internal accounting adjustments. The adjusted variance column is explained in more detail within the Outturn Report to Cabinet.

Cabinet 29-June-2020 | North Tyneside Council

Housing Revenue Account (HRA)

The overall position on the HRA improved significantly between January and March, with a £0.198m improvement in in-year balances increasing the overall in- year position to £2.831m better than budgeted.

Rent and Service charge income projections improved during the year, as empty home numbers remained at a below budgeted level for most of the financial year with voids starting the year at 135 increasing to 162 by the end of March 2020. The increase in numbers occurred at the end of the year and was directly linked to the start of the COVID-19 pandemic. Hence rental income exceeded budget by £0.614m. In addition, income from accommodation provided to specific HECS service areas was also well above budget by £0.123m, and service charge income was £0.108m ahead of budget, also reflecting the drop in the number of empty homes particularly in the North Tyneside Living schemes.

There were significant improvements in most areas of spend across the budget. Debt Interest and Capital Financing showed a small under-spend against budget of £0.212m, due to continued favourable interest rates on temporary borrowing, and a reduction in the amount of debt requiring re-financing linked to additional receipts from Right to Buy sales in 2018-19. There was an increase against budget of £0.637m within the PFI contract costs. This reflected increased contributions made to the reserve in-year as a result of the improved overall position on the HRA, which will help to restore the reserve more quickly than anticipated linked to use of reserves decisions on Fleet purchase for Housing, Property and Construction, and the resolution of Contractor Compensation claims linked to the construction phase of the North Tyneside Living PFI scheme.

Management costs ended up £2.061m under budget, a small improvement of £0.037m from January, most of these savings were linked directly to the creation of the Housing Property and Construction service and were identified within the Benefits Realisation Plan for that project. There were additional savings around Council Tax Empty Homes payments, vacancies and a range of other overs and unders which resulted in a net £0.351m improvement on the budgeted figures.

Full details of the HRA position is detailed in the Outturn Report to Cabinet: Cabinet 29-June-2020 | North Tyneside Council

Capital Expenditure

The initial 2019/20 Investment Plan budget was £62.758m (£36.944m General Fund and £25.814m Housing). Further variations to the Plan and reprogramming were agreed by Cabinet during the year as part of the Financial Monitoring process to give an approved plan at the year-end of £65.182m (£40.873m General Fund and £24.309m Housing). The Table below summarises these changes.

	£000s
Investment Plan approved by Council 21 Feb 2019	62,758
Reprogramming from 2018/19	14,317
Reprogramming to 2020/21 and future years	(17,739)
Other variations (net)	5,846
Revised Investment Plan	**65,182**

Actual capital expenditure in 2019/20 totalled £59.080m (£69.359m in 2018/19), comprising General Fund expenditure of £35.911m and £23.169m on Housing Schemes.

Not all of the expenditure relates to the creation or improvement of fixed assets for the Authority. £11.269m relates to spend on other items, with £2.409m for share capital, £1.948m on loans, £1.493m spent on Disabled Facilities grants and £0.336m for Clean Bus Technology. The following table compares the actual capital expenditure with the revised budget for the year.

	Revised Capital Budget 2019/20 £000s	**Actual Capital Expenditure 2019/20 £000s**	**Variation from budget over/(under) £000s**
General Fund	40,873	35,911	(4,962)
Housing	24,309	23,169	(1,140)
Total	**65,182**	**59,080**	**(6,102)**

Main projects completed during 2019/20

- Artificial grass pitch Amberley Playing fields
- Improvements to schools premises to meet Special Education Needs and Disabilities (SEND)
- Investment in North Tyneside Trading Company - delivering homes
- Highways improvement works
- Various works to housing stock
- ICT refresh
- Improvement works to the schools estate

Projects Underway

- Refurbishment works at the Centre for Innovation
- Operational Depot Accommodation review
- Building new HRA affordable homes
- Wallsend Customer First Centre to fit out to accomodate additional users

Borrowing Facilities

Section 3 of the Local Government Act 2003 requires the Authority to determine its own affordable borrowing requirement necessary to fund capital expenditure. The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice.

The Authority set its Authorised Limit for external debt for 2019/20 at £1,250.000m (£1,280.000m 2018/19) and its Operational Boundary for external debt at £680.000m (£700.000m 2018/19). All transactions were carried out within the Authorised Limit boundaries during 2019/20. As shown in the Balance Sheet, the total liabilities for borrowing, finance lease balances (including Private Finance Initiative (PFI)) and other liabilities are £581.308m (£573.878m 2018/19).

Main points from Financial Statements

Comprehensive Income & Expenditure Statement

The Cost of Services line in the Comprehensive Income & Expenditure Statement represents the net expenditure incurred by the Authority in the direct provision of Services (page 23). The net expenditure of £132.157m (£165.469m 2018/19) is a decrease of £33.312m on the previous year. The variations relate in the main to capital accounting adjustments particularly within the Housing Revenue Account and pension accounting adjustments.

Other operating expenditure has increased from £11.515m in 2018/19 to £12.021m during 2019/20. This mainly relates to a change in the value of disposal of assets, previously (£1.869m) in 2018/19, now (£1.297m).

In terms of income, Taxation and Non-specific Grant Income, there has been an increase in income of £0.833m from £176.565m in 2018/19 to £177.398m in 2019/20. This mainly relates to capital grants and contributions.

Balance Sheet

The Balance Sheet is set out on pages 27 to 28. Overall, the Authority has net assets of £128.933m which is an increase of £45.955m from the 2018/19 figure of £82.978m. The increase is mainly around Long Term Assets, in particular Property, Plant and Equipment and Current Assets.

Current Liabilities are (£128.616m) in 2019/20 compared to (£125.962m) in 2018/19. The increase of £2.654m relates to an increase in the level of provisions and creditors offset by a reduction in short term borrowing which reflects the reduction in the level of temporary debt held by the Authority (moved to long term debt) and a reduction in PWLB loans.

Long Term Liabilities have increased by £1.096m to (£997.866m) in 2019/20. In the main this is due to a decrease in the Pension Liability and an increase in long term borrowing.

Overall Useable Reserves have seen a slight decrease of £0.063m and stand at (£101.650m), (Note 31 provides more details on these reserves), and Unuseable Reserves have increased by (£46.018m) (Note 33 provides more details on these reserves).

Non-Financial Performance of the Authority

The Our North Tyneside Plan (Council Plan) continues to set out the overall vision and policy context for the Authority.

It builds upon the progress that has been achieved since the start of the plan in 2013. 72% of pupils reach a Good Level of Development at Foundation Stage.

Across the borough more people are now in work compared to 2013. 10% of residents aged 16-65 are on out of work benefits, which is better than the regional average of 12%.

Strong and effective services are in place to support people if they become vulnerable. This includes a focus on prevention and early help. As examples, there were 1,303 Early Help Assessments carried out in Children's Services and almost 3% of people who have presented as homeless have been accepted as priority homeless due to preventative work that has taken place with the service.

Feedback from our Residents' Survey shows around 8 in 10 residents are satisfied with where they live. A key driver in local satisfaction is the local environment. In the past year, due to a number of changes, the Authority has reduced the amount of municipal waste that it has collected by 9% over the last two years and significantly reduced the amount of waste sent to landfill. In addition, compared to a baseline, carbon emissions have been reduced by 45%, which is in line with the authority's new target as a result of the climate emergency to reduce carbon emissions by 50% by 2023.

More and better homes have been delivered across North Tyneside. We have already built 1,560 new affordable homes, which is in line with the Cabinet priority of 3,000. This included 180 new affordable homes in the last year. Over a quarter of residents are very satisfied with the choice of housing now available to them.
The Borough is also attractive for the 6.1 million visitors who contribute around £332 million to the local economy. Tourism

supports over 3,940 jobs and has been boosted by the £10m refurbishment of The Dome.

The borough is attracting more businesses and creating more job opportunities at every skills level. Between August 2018 and September 2019, a total of 2,557 jobs (net) were reported as being created in North Tyneside. This includes both companies relocating to the borough and jobs created by existing firms, including plans by Sage to move around 2,000 jobs to Cobalt Business Park. In addition, North Tyneside is home to two significant business parks. Cobalt Business Park is the UK's largest commercial office park, currently employing around 12,000 people. By 2018 there were 5,855 active businesses in North Tyneside – an increase from 4,965 in 2013. Those businesses provide 87,000 jobs, which is 7,000 more jobs than in 2015.

Opportunities for our young people have never been better. 88% of young people achieve qualifications at Key Stage 5 (A-Levels) and 85% of them, more than the national average, go on to higher education or employment.

This vision and policy context reflect the updated priorities of the Elected Mayor and Cabinet and the work of the North Tyneside Strategic Partnership, which includes all of the organisations and sectors who work together with the Authority to deliver an improved future for the borough and its residents. Reducing the inequalities between our most deprived and most affluent areas continues to be an area of focus for the Authority and partners.

The Plan continues to provide the context for all financial decisions and the operational delivery of services both at borough level but also increasingly as we work alongside other local authorities across the region, statutory partners and with business through the North East Local Enterprise Partnership.

The Plan continues to provide the context for all financial decisions and the operational delivery of services both at borough level but also increasingly as we work alongside other local authorities across the region, statutory partners and with business through the North East Local Enterprise Partnership.

The Our North Tyneside plan is focused on ensuring that the Authority works better for residents.

The plan has three key themes – Our People, Our Places and Our Economy.

Our People will:

- Be listened to so that their experience helps the Council work better for residents;
- Be ready for school – giving our children and their families the best start in life;
- Be ready for work and life – with the right skills and abilities to achieve their full potential, economic independence and meet business needs;
- Be healthy and well – with the information, skills and opportunities to maintain and improve their health, well-being and independence, especially if they are carers;
- Be cared for, protected and supported if they become vulnerable including if they become homeless; and
- Be encouraged and enabled to, whenever possible, be more independent, to volunteer and to do more for themselves and their local communities.

Our Places will:

- Be great places to live by focusing on what is important to local people, such as by tackling the derelict properties that are blighting some of our neighbourhoods;
- Offer a good choice of quality housing appropriate to need, including affordable homes that will be available to buy or rent;
- Benefit from the council's housing stock being decent and well managed, as well as maximising the potential use of housing such as through extra care schemes;
- Recognise the climate emergency by further reducing the Borough's overall carbon footprint. This will include reducing the council's carbon footprint, along with encouraging and enabling everyone to reduce their carbon footprint;
- Provide a clean, green, healthy, attractive and safe environment;
- Have an effective transport and physical infrastructure - including our roads, pavements, street lighting, drainage and public transport;
- Continue to be regenerated as part of our 15 year 'Ambition for North Tyneside' plan. This will include the continued development of Wallsend and Whitley Bay and begin new schemes in Forest Hall and Killingworth.; and
- Be a thriving place of choice for visitors through the promotion of our award-winning parks, beaches, festivals and seasonal activities.

Our Economy will:

- Benefit from the delivery of our ambitious vision, which we created with partners in the North of Tyne Combined Authority. We will have a dynamic and more inclusive economy, which will ensure that all residents have a stake in our region's future;
- Grow by supporting new businesses and building on our strengths, including our existing world class companies, and small and growing enterprises;
- Be business friendly, ensuring the right skills and conditions are in place to support investment, and create and sustain new high-quality jobs and apprenticeships for working age people; and
- Continue to support investment in our business parks, units and town centres.

Significant issues relating to 2020/21 and beyond

The end of the financial year 2019/20 saw the beginning of the COVID-19 pandemic, the impact of which has been unexpected and significant. Cabinet and all Members have been kept up to date of the response the Authority has implemented as lockdown was put in place and what that meant for essential services being maintained for the most vulnerable residents of the borough. There have been a range of services suspended such as the leisure and culture and the financial impact on the Authority arising from additional costs and lost income is anticipated to be significant during 2020/21 and beyond.

There have been a range of financial interventions introduced by the Government, and like all local authorities, North Tyneside Council has felt the impact of the on-going COVID-19 pandemic. The Authority received its share of the Government's Local Support Grant of £6.822m in March 2020 to support local authorities with the additional costs and income lost due to COVID-19. As 'Lockdown' measures were only introduced on 23 March 2020, the financial impact of this in 2019/20 was £0.733m and the remaining balance of £6.089m was moved to a ringfenced reserve on the balance sheet, ready for utilisation in 2020/21 when the greater financial impact is expected.

A further tranche of the Local Support Grant of £5.709m was received in May 2020 bringing the total received by North Tyneside Council to £12.531m. After the carry forward from 2019/20, the Authority currently has £11.798m of Local Support Grant funding in reserve. As the majority of the financial impact will be felt in 2020/21, work is on-going between Finance and the wider service areas to review and update on a regular basis the financial impact of additional costs and income forgone currently anticipated during 2020/21. Monthly returns are being submitted to the Ministry for Housing, Communities and Local Government (MHCLG) containing the latest estimates of the financial impact of COVID-19 on the Authority's finances. The May 2020 return projected the financial impact to be in the region of £24.930m (both General Fund and HRA), far in excess of the current funding made available from the Government. There are longer term impacts anticipated through an increased number of residents being eligible for Local Council Tax Support, which will impact on collection of Council Tax. In addition, despite a range of government support being put in place we anticipate there will be a significant impact on the businesses in the borough which will impact on Business Rates raised and collected both during 2020/21 and beyond.

The ongoing impact into 2021/22 is expected due to reduced income from Council Tax and Business Rates as well as a potential on-going increase in demand in adults and children's social care and the ongoing impact of any savings planned for 2020/21 which are not delivered. Scenarios are being modelled which will be used to shape the early assumptions used for the Medium-Term Financial Plan (MTFP).

In addition to the Local Support Grant, the Authority also received a £38.494m grant from the Government aimed at supporting businesses in the retail, hospitality and leisure sector, small businesses in receipt of small business rate relief and other organisations such as community associations and sporting clubs during the pandemic Initial estimates were that 3,014 business premises would be eligible to apply for this grant at a cost of £34.270m. At the end of May 2020, the Authority had made payments to 2,567 (85.17%) of the eligible businesses, totalling £29.495m, payments have continued to be made during June.

Further impacts of the COVID-19 pandemic include the delay in the 2020 Spending Review, which was scheduled to be completed by July this year. The delay has enabled the Government to remain focused on responding to the ongoing coronavirus outbreak. Current indications suggest a one-year settlement may be issued again, with a full spending review delayed with no timetable yet as to when indicative funding for local government for 2021/22 is likely to be announced.

Additionally, the Government has confirmed that the Fair Funding and Business Rates Retention (BRR) schemes review, scheduled for implementation in April 2021, will now not go ahead until April 2022 at the earliest. The statement also said that the Government will continue to work with authorities on the best approach to the next financial year, including how to treat accumulated business rates growth and the approach to the 2021/22 local government finance settlement. Until this approach is confirmed significant risks remain to the Authority's ability to update the four-year MTFP due to the ongoing uncertainty about future funding arrangements.

It has been highlighted previously by the Chief Finance Officer that the Authority has a relatively low level of reserves. The level of uncertainty with regard to the levels of funding for Local Government Finance beyond 2020/21 alongside the uncertain long term implications of how the borough and indeed the country will recover from the impact of COVID-19 is of concern when considering the financial sustainability of the Authority, particularly when taken in the context of funding reductions the Authority has managed since 2010/11. Despite some increases the general level of reserves available to support the Authority's budget remains relatively low when considering the current estimated gap arising from the financial impact of COVID-19.

The Strategic Reserve represents 4.32% of the General Fund 2020/21 gross budget and 9.60% of the 2020/21 net budget, with the General Fund balances added, these represent 6.27% of the 2020/21 gross budget and 13.94% of the 2020/21 net General Fund budget. There is no prescribed level of reserves advise by finance bodies with the level being considered in light of risks the authority faces not just in the current year but looking ahead.

In these unpresented times the importance of robust financial management across the Authority remains paramount. A range of tighter spending controls have been put in place to ensure no non-essential spend is incurred during 2020/21 and to ensure any COVID-19 related expenditure is appropriately considered and approved in advance of being incurred. The Four year Financial Plan and the Financial Strategy are being reviewed and updated in light of the current situation.

Annual Governance Statement

The Annual Governance Statement sets out very clearly those significant areas of risk that the Authority continues to take action to monitor and control. The Senior Leadership Team and Cabinet take regular review and challenge of risks identified, verifying assumptions and controls with regard to those risks, ensuring that clear links are then made through to the review and refresh of the Financial Strategy.

Property, Plant and Equipment (PPE) Valuations

The revaluation of the Authority's property was undertaken prior to COVID-19, as a result of this it does not include any impact the pandemic may have had on property values. The Authority's valuers have noted the following in their valuation report:

- Our valuations are reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that property values are kept under frequent review.

Whilst the Authority acknowledges that there is a significant risk in the property market for certain sectors, it is considered unlikely that the value of the Authority's property will be materially effected by the impact of COVID-19 due to the following reasons:

- Due to the specialised nature of the assets held by the Authority a depreciated replacement cost (DRC) method is used particularly for the high value assets (schools and leisure centres), these are not subject to market conditions in terms of rental levels and investment yields. The DRC valuation method uses the cost of replacing the asset and its useful economic life to provide a valuation. As at 31 March 2020 management were unaware of any changes in market conditions that meant that the cost of replacing the asset has materially changed.

- Of those assets that are valued using the investment method, these tend to be relatively low value retail units, occupied by independent retailers. The Authority does not have major high street occupiers. There are a small number of retail units in North Shields and Whitley Bay town centre which make up the investment portfolio. The provision of government grants and the easing of the lockdown in June and July should mean that most tenants will be able to continue trading. Therefore, it does not look like vacancies will be significantly above what would be expected through normal tenant turnover.

- All property valuations were completed in advance of the COVID-19 national lockdown.

Explanation of the Key Financial Statements

The Accounts and Audit Regulations 2015 require the Authority to produce a Statement of Accounts for each financial year. These statements contain a number of different elements which are explained below:

<u>Core Financial Statements</u>

The Comprehensive Income & Expenditure Statement (CIES) shows the cost of providing services in the year in accordance with International Financial Reporting Standards (IFRS), rather than the amount funded from Council Tax and other Government Grants. The amount funded from Council Tax and Government Grants differs from this by a series of adjustments made in accordance with regulations. These adjustments are made in the Movement in Reserves Statement. The CIES is shown on page 23. The group position is presented separately on page 24

The Movement in Reserves Statement (MIRS) shows the movement from the start of the year to the end on the different reserves held by the Authority and the wider group, analysed into ‘useable reserves’ (i.e. those that can be applied to fund expenditure or reduce local taxation) and other ‘unuseable reserves’.

The Statement shows how the movements in year of the Authority’s reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The net increase/decrease line show the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments. The MIRS is shown on page 25.

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority and the group. The net assets of the Authority are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are useable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt).

The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line ‘Adjustments between accounting basis and funding basis under regulations’. The Balance Sheet is shown on pages 27 to 28.

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The Statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Group transactions have not been included as cash balances are held by the Authority and have been removed as intra-group transactions.

Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority’s future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority. The Cash Flow is shown on page 29.

Notes to the Accounts

The notes aim to assist in the understanding of the Statement of the Accounts. They are fundamentally important in the presentation of a true and fair view. They provide information on the basis of the preparation of the financial statements and disclose information not presented directly in the key financial statements which is relevant to the understanding of the information contained elsewhere within the Statement of Accounts. Where group transactions are significant, these are disclosed separately.

Housing Revenue Accounts (HRA)

The Housing Revenue Account (HRA) Income & Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement. The HRA is shown on page 147.

Collection Fund

The Collection Fund is a statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of Council Tax and Non-Domestic Rates. The Collection Fund is shown on page 156.

If you would like further information about these accounts, please contact Janice Gillespie, Head of Resources, North Tyneside Council, Quadrant, The Silverlink North, Cobalt Business Park, North Tyneside, NE27 0BY

Janice Gillespie
Head of Resources
Date: 3 July 2020

2.0 Independent Auditor’s Report to the Members of North Tyneside Council

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3.0 Statements to the Accounts

3.1 Statement of Responsibilities for the Statement of Accounts

The Authority's and the Group's Responsibilities

The Authority and the Group are required:

i. 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 this Authority, the officer is the Head of Resources;

ii. To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and

iii. To approve the Statement of Accounts.

The Head of Resources Responsibilities

The Head of Resources is responsible for the preparation of the Authority's and the Group's Statement of Accounts in accordance with proper practice as set out in the 2019-20 CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom ('The Code').

In preparing this Statement of Accounts the Head of Resources has:

i. Selected suitable accounting policies and then applied them consistently;
ii. Made judgements and estimates that were reasonable and prudent; and
iii. Complied with the Code of Practice on Local Authority Accounting.

The Head of Resources has also:

i. Kept proper accounting records which were up to date; and
ii. Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts for the year ended 31 March 2020, required by the Accounts and Audit Regulations 2015 are set out in the following pages and that they give a true and fair view of the financial position of the Authority including the Group and its income and expenditure for the year ended 31 March 2020.

Signed:

Janice Gillespie, Head of Resources
Date 3 July 2020

3.2 Comprehensive Income and Expenditure Statement for the year ended 31 March 2020

This Statement shows the accounting cost in year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation 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.

***Restated see Note A for further details**

Council position:

2018/19 *				2019/20		
Gross Exp £000s	**Gross Inc £000s**	**Net Exp £000s**		**Gross Exp £000s**	**Gross Inc £000s**	**Net Exp £000s**
248	(283)	(35)	Chief Executive Office	113	(263)	(150)
166,826	(154,574)	12,252	Commissioning & Asset Management	196,499	(168,158)	28,341
1,917	(520)	1,397	Corporate Strategy	1,532	(584)	948
71,791	(28,558)	43,233	Environment, Housing & Leisure	73,765	(30,446)	43,319
163,400	(92,844)	70,556	Health, Education, Care & Safeguarding	171,599	(99,947)	71,652
49,777	(71,113)	(21,336)	Housing Revenue Account	51,407	(69,385)	(17,978)
1,562	(879)	683	Law & Governance	2,330	(1,571)	759
25,039	(902)	24,137	Regeneration & Economic Development	2,813	(959)	1,854
75,621	(71,892)	3,729	Resources	65,616	(63,229)	2.387
42,470	(11,617)	30,853	Central Costs (including Support Services)	14,702	(13,677)	1,025
598,651	**(433,182)**	**165,469**	**Cost of Services**	**580,376**	**(448,219)**	**132,157**
11,515	0	11,515	Other Operating Expenditure (Note 10)	12,021	0	12,021
35,276	(525)	34,751	Financing and Investment Income and Expenditure (Note 11)	34,755	(1,875)	32,880
0	(176,565)	(176,565)	Taxation and Non Specific Grant Income (Note 12)	0	(177,398)	(177,398)
645,442	**(610,272)**	**35,170**	**(Surplus)/Deficit on Provision of Services**	**627,152**	**(627,492)**	**(340)**
		(15,147)	Surplus on Revaluation of Non-Current Assets (Note 33a)			(5,589)
		(23,570)	Remeasurement of the net defined benefit liability (Note 33d)			(43,640)
		(102)	Deficit/(Surplus) on Financial Instruments measured at fair value through OCI&E (Note 33h)			3,614
		(38,819)	**Other Comprehensive Income and Expenditure (OCI&E)**			**(45,615)**
		(3,649)	**Total Comprehensive Income and Expenditure**			**(45,955)**

Comprehensive Income and Expenditure Statement for the year ended 31 March 2020

Group position:

2018/19				2019/20		
Gross Exp £000s	**Gross Inc £000s**	**Net Exp £000s**		**Gross Exp £000s**	**Gross Inc £000s**	**Net Exp £000s**
248	(283)	(35)	Chief Executive Office	113	(263)	(150)
166,826	(154,574)	12,252	Commissioning & Asset Management	196,499	(168,158)	28,341
1,917	(520)	1,397	Corporate Strategy	1,532	(584)	948
71,791	(28,558)	43,233	Environment, Housing & Leisure	73,765	(30,446)	43,319
163,400	(92,844)	70,556	Health, Education, Care & Safeguarding	171,599	(99,947)	71,652
49,777	(71,113)	(21,336)	Housing Revenue Account	51,407	(69,385)	(17,978)
1,562	(828)	734	Law & Governance	2,330	(1,520)	810
25,039	(902)	24,137	Regeneration & Economic Development	2,813	(959)	1,854
75,621	(71,853)	3,768	Resources	65,616	(63,182)	2,434
42,470	(11,344)	31,126	Central Costs (including Support Services)	14,702	(13,274)	1,428
670	(1,246)	(576)	North Tyneside Trading Company (NTTC)	895	(2,256)	(1,361)
599,321	**(434,065)**	**165,256**	**Cost of Services**	**581,271**	**(449,974)**	**131,297**
11,515	0	11,515	Other Operating Expenditure	12,021	0	12,021
35,276	(525)	34,751	Financing and Investment Income and Expenditure	34,755	(1,375)	33,380
0	(176,565)	(176,565)	Taxation and Non Specific Grant Income	0	(177,398)	(177,398)
646,112	**(611,155)**	**34,957**	**(Surplus)/Deficit on Provision of Services**	**628,047**	**(628,747)**	**(700)**
		(15,147)	Surplus on Revaluation of Non-Current Assets			(5,589)
		(23,570)	Remeasurement of the net defined benefit liability			(43,640)
		(102)	Deficit/(Surplus) on Financial Instruments measured at fair value through OCI&E			3,614
		(38,819)	**Other Comprehensive Income and Expenditure (OCI&E)**			**(45,615)**
		(3,862)	**Total Comprehensive Income and Expenditure**			**(46,315)**

3.3 Movement in Reserves Statement for the year ended 31 March 2020

This Statement shows the movement from the start of the year to the end on the different reserves held by the Authority, analysed into 'useable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unuseable reserves'. The Statement shows how the movements in year of the Authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The net increase/decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

	General Fund Balances £000s	Housing Revenue Account Balances £000s	Capital Receipts Reserve £000s	Major Repairs Reserve £000s	Capital Grants Unapplied £000s	Total Useable Reserves £000s	Unuseable Reserves Note 33 £000s	Total Authority Reserves £000s
Balance at 31 March 2019	**(57,008)**	**(27,154)**	**(8,351)**	**(2,231)**	**(6,969)**	**(101,713)**	**18,735**	**(82,978)**
Movement in Reserves during 2019/20								
Total Comprehensive Income & Expenditure	2,558	(2,898)	0	0	0	(340)	(45,615)	(45,955)
Adjustments between accounting basis & funding basis under regulations (Note 3)	(561)	3,146	(1,734)	(1,601)	1,153	403	(403)	0
Decrease/(Increase) in 2019/20	1,997	248	(1,734)	(1,601)	1,153	63	(46,018)	(45,955)
Balance at 31 March 2020	**(55,011)**	**(26,906)**	**(10,085)**	**(3,832)**	**(5,816)**	**(101,650)**	**(27,283)**	**(128,933)**

	General Fund Balances £000s	Housing Revenue Account Balances £000s	Capital Receipts Reserve £000s	Major Repairs Reserve £000s	Capital Grants Unapplied £000s	Total Useable Reserves £000s	Unuseable Reserves Note 33 £000s	Total Authority Reserves £000s
Balance 1 April 2018	**(58,035)**	**(28,903)**	**(7,015)**	**(2,231)**	**(4,211)**	**(100,395)**	**21,066**	**(79,329)**
<u>Movement in Reserves during 2018/19</u>								
Total Comprehensive Income & Expenditure	41,801	(6,631)	0	0	0	35,170	(38,819)	(3,649)
Adjustments between accounting basis & funding basis under regulations (Note 3)	(40,774)	8,380	(1,336)	0	(2,758)	(36,488)	36,488	0
Decrease/(Increase) in 2018/19	1,027	1,749	(1,336)	0	(2,758)	(1,318)	(2,331)	(3,649)
Balance at 31 March 2019	**(57,008)**	**(27,154)**	**(8,351)**	**(2,231)**	**(6,969)**	**(101,713)**	**18,735**	**(82,978)**

3.4 Balance Sheet as at 31 March 2020

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are useable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt).

The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Group 31 March 2019 £000s	Council 31 March 2019 £000s		Notes	Group 31 March 2020 £000s	Council 31 March 2020 £000s
1,105,297	1,101,278	Property, Plant & Equipment	19	1,115,533	1,110,085
2,293	2,293	Heritage Assets		2,300	2,300
1,513	1,513	Investment Property		1,448	1,448
4,557	4,557	Intangible Assets		4,200	4,200
13,866	16,045	Long Term Investments	23 & 38	10,263	14,840
1,879	2,969	Long Term Debtors		1,994	5,025
1,129,405	**1,128,655**	**Long Term Assets**		**1,135,738**	**1,137,898**
486	486	Short Term Investments	38	100	100
239	239	Assets Held for Sale	20	3,571	3,571
3,995	771	Inventories	42	8,117	1,205
65,760	65,718	Short Term Debtors	24	75,371	75,792
10,237	9,841	Cash & Cash Equivalents	25	37,292	36,849
80,717	**77,055**	**Current Assets**		**124,451**	**117,517**
(80,043)	(80,043)	Short Term Borrowing	26	(67,448)	(67,448)
(39,882)	(39,612)	Short Term Creditors	27	(50,900)	(50,629)
(3,955)	(3,955)	Finance Lease & PFI Creditors	18	(4,265)	(4,265)
(2,138)	(2,138)	Provisions	28	(6,080)	(6,080)
(214)	(214)	Other Short Term Liabilities		(194)	(194)
(126,232)	**(125,962)**	**Current Liabilities**		**(128,887)**	**(128,616)**

Group 31 March 2019 £000s	Council 31 March 2019 £000s	Balance Sheet as at 31 March 2020	Notes	Group 31 March 2020 £000s	Council 31 March 2020 £000s
(113,850)	(113,850)	Finance Lease & PFI Creditors	18	(109,624)	(109,624)
(4,374)	(4,374)	Provisions	28	(4,015)	(4,015)
(373,443)	(373,443)	Long Term Borrowing	29	(402,443)	(402,443)
(3,342)	(2,373)	Other Long Term Liabilities		(3,244)	(2,274)
(2,091)	(2,091)	Other Long Term Creditors	30	(2,046)	(2,046)
(491,648)	(491,648)	Pension Liability	9	(465,490)	(465,490)
(8,991)	(8,991)	Capital Grants Receipts in Advance	13	(11,974)	(11,974)
(997,739)	**(996,770)**	**Long Term Liabilities**		**(998,836)**	**(997,866)**
86,151	**82,978**	**Net Assets**		**132,466**	**128,933**
		Financed By:			
(101,713)	(101,713)	Useable Reserves	31	(101,650)	(101,650)
(3,173)	0	Useable Reserves of Group Entity	31	(3,533)	0
18,735	18,735	Unuseable Reserves	33	(27,283)	(27,283)
(86,151)	**(82,978)**	**Total Reserves**		**(132,466)**	**(128,933)**

I certify that the Statement of Accounts for the year ended 31 March 2020, required by the Accounts and Audit Regulations 2015 are set out in pages 23 to 29 and that they give a true and fair view of the financial position of the Authority including the Group and its income and expenditure for the year ended 31 March 2020.

Signed:

Janice Gillespie
Head of Resources
Date: 3 July 2020

3.5 Cash Flow Statement for year ended 31 March 2020

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The Statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

2018/19 £000s		Notes	2019/20 £000s
(35,170)	Net surplus/(deficit) on the provision of services		340
105,595	Adjustments to net surplus/(deficit) on the provision of services for non-cash movements	39	70,145
(31,395)	Adjustments for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities	39	(34,951)
39,030	**Net cash flows from operating activities**		**35,534**
(28,138)	Net Cash flow from Investing Activities	40	(22,083)
(15,461)	Net Cash flow from Financing Activities	41	13,557
(4,569)	**Net increase/(decrease) in cash and cash equivalents**		**27,008**
14,410	Cash and cash equivalents at the beginning of the reporting period	25	9,841
9,841	**Cash and cash equivalents at the end of the reporting period**		**36,849**

Cash balances for North Tyneside Trading Company (NTTC) are not held by the Authority. The Company has a separate bank account to that of the Authority, therefore NTTC is not include in the above statement. By way of information the cash balances at 31 March 2020 for NTTC were £0.443m (£0.396m 31 March 2019).

4.0 Index to the Notes to the Financial Statements

The values within the financial statements are disclosed with roundings which are appropriate to their individual presentation. Consequently, the tables in the Statement of Accounts may contain rounding differences.

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A Prior Period Adjustment

There has been a requirement to restate the Authority's previously published accounts in respect of the presentation of the Comprehensive Income & Expenditure Statement (CI&ES) and the Expenditure and Funding Analysis as service reporting has changed in 2019/20 compared to that disclosed in 2018/19.

The table below summarises the adjustments that have been made; it should be noted that this change has no impact on the available resources of the Authority. The tables below only show the lines that have been amended not the complete Statement or Note.

Statement/Note	Original 2018/19 Published Figure £000s	Restated 2018/19 Figure £000s	Movement £000s
Comprehensive Income & Expenditure Statement			
Chief Executive Office	1,034	0	(1,034)
Business & Economic Development	24,137	0	(24,137)
Commercial & Business Redesign	2,996	0	(2,996)
Finance	(553)	0	553
Human Resources & Organisational Development	217	0	(217)
Chief Executive Office	0	(35)	(35)
Regeneration & Economic Development	0	24,137	24,137
Resources	0	3,729	3,729
Expenditure and Funding Analysis – Net Expenditure			
Business & Economic Development	24,137	0	(24,137)
Commercial & Business Redesign	2,996	0	(2,996)
Finance	(553)	0	553
Human Resources & Organisational Development	217	0	(217)
Regeneration & Economic Development	0	24,137	24,137
Resources	0	2,660	2,660

Statement/Note	Original 2018/19 Published Figure £000s	Restated 2018/19 Figure £000s	Movement £000s
Expenditure and Funding Analysis – Total Adjustments			
Business & Economic Development	22,775	0	(22,775)
Commercial & Business Redesign	1,422	0	(1,422)
Finance	236	0	(236)
Human Resources & Organisational Development	137	0	(137)
Regeneration & Economic Development	0	22,775	22,775
Resources	0	1,795	1,795
Expenditure and Funding Analysis – Segmental Income			
Chief Executive Office	(124)	0	124
Business & Economic Development	(283)	0	283
Commercial & Business Redesign	(289)	0	289
Finance	(1,014)	0	1,014
Human Resources & Organisational Development	(32)	0	32
Chief Executive Office	0	(124)	(124)
Regeneration & Economic Development	0	(283)	(283)
Resources	0	(1,335)	(1,335)

4.1 Explanatory Notes to the Core Financial Statements

1 Accounting Policies

General Principles

Accounting Policies explain the basis for the recognition, measurement and disclosure of transactions and other events in the accounts. They are the principles, bases, conventions, rules and practices applied by the Authority that specify how the effects of transactions and other events are to be reflected in the financial statements through recognising, selecting measurement bases for and presenting assets, liabilities, gains, losses and changes in reserves. The Accounting Policies cover material transactions within the Statement of Accounts.

The Statement of Accounts summarises the Authority's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The Authority is required to prepare an annual Statement of Accounts in accordance with proper accounting practices by the Accounts and Audit Regulations 2015.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 7 of the 2015 Regulations.

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

Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

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

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

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period. Generally, the majority of prior period items arise from corrections and adjustments that are the natural result of estimates inherent in the accounting process. Such adjustments constitute normal transactions in the year in which they are identified and are accounted for accordingly.

Accruals of Income and Expenditure (Authority & Group)

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract unless the difference is immaterial; and
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- The Authority has an accruals de minimis level of £1,000

Overheads and Support Services

The costs of overheads and support services are shown within the Central Costs line on the Comprehensive Income and Expenditure Statement in accordance with the Authority's arrangements for accountability and financial performance.

Government Grants and Contributions

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

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

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until there is reasonable assurance that the conditions attached to the grant or contribution will be 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 or for which there is not reasonable assurance that they will be satisfied are carried in the Balance Sheet as creditors (revenue grants) or capital grants receipts in advance (capital grants). When conditions are satisfied or reasonable assurance is achieved, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

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 Authority is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations to General Fund assets. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance, the Minimum Revenue Provision (MRP). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by MRP in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two. The Minimum Revenue Provision policy is approved annually by Council as part of the budget setting process. Under the Item 8 debit and credit determination from April 2017 depreciation for Housing Revenue Accounts assets is calculated in accordance with proper accounting practice and charged to the Housing Revenue Account. Impairment and revaluation adjustments are reversed out of the Housing Revenue Account and will not impact on housing rents.

Depreciation for NTTC is a charge against revenue and cannot be reversed. The charge records the cost of holding the non-current asset during the year.

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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

<u>The Authority as Lessee</u>

Operating Leases
Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges 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 rent-free period at the commencement of the lease).

<u>The Authority as Lessor</u>

Operating Leases
Where the Authority 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 relevant service (Other Operating Expenditure) line in the Comprehensive Income and Expenditure Statement. Rental income is recognised 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 rent-free period at the commencement of the lease).

Employee Benefits

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

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

<u>Termination Benefits</u>
Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer’s employment before the normal retirement date, or an officer’s decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service or where applicable, to the Central costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises the costs for a restructuring.

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

Post-Employment Benefits (Retirement Benefits)
Employees of the Authority are primarily members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE); and

- The Local Government Pensions Scheme (Tyne and Wear Pension Fund), administered by South Tyneside Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees of the Authority/Schools.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Commissioning & Asset Management line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pensions Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Tyne and Wear Pension Fund attributable to the Authority 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, employee turnover rates, etc, and projections of projected earnings for current employees; and

- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bonds.

The assets of the Tyne and Wear Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price;
- Unquoted securities – professional estimate;
- Unitised securities – current bid price; and
- Property – market value.

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

Service cost

- Current service cost – 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;

- Past service cost – 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; and

- Net Interest on the net defined benefit liability (asset) i.e. net interest expense for the Authority – 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 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.

Remeasurements comprising

- The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;

- Actuarial gains and losses – 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; and

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

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

The notes to the Core Financial Statements provide further details on contributions made.

Discretionary Benefits

The Authority 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.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of Council Tax.

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.

The freehold and leasehold properties which comprise the Council's portfolio are valued by Capita acting as the Authority's internal Chartered Surveyors.

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 Authority and the cost of the item can be measured reliably. 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

Assets are initially measured at cost, comprising:

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

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

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- Infrastructure and community assets– depreciated historical cost;
- Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH);
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV);
- School buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value;
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective; and,
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets under the course of construction are recorded at cost during the construction period. Once the asset becomes operational a valuation is undertaken as relevant to the asset's type.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. However, where the increase reverses a revaluation decrease on the same asset that was previously charged to the Surplus or Deficit on Provision of Services, all or part of the revaluation gain is credited to the Surplus or Deficit on Provision of Services up to the amount of the previously recognised loss, net of depreciation that would have been charged had the loss not been recognised.

Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); or

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

De-Minimis Levels

The Authority has set a de-minimis level for the recognition of capital assets of £0.010m for land, buildings and infrastructure and £0.006m for equipment.

Assets below the de-minimis level are charged to the revenue account i.e. the asset is not included in the balance sheet unless it is part of an overall project costing more than the de-minimis level.

The Authority may capitalise particular items of expenditure that are below its de-minimis limit (e.g. because the terms of a grant require it to be applied to capital expenditure), as this brings the Authority back in line with proper practices for the particular item. The treatment of items below the limit in this way has no material impact on the accounts.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for in the following ways:

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

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

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e.

freehold land, Heritage Assets and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Deprecation is calculated on the following bases:

- Council Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer (generally 30-60 years);
- Vehicles, plant, furniture and equipment – straight-line allocation over the useful life of the asset (generally 3-10 years); and
- Infrastructure – straight-line allocation over the useful life of the asset (generally 10-120 years).

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. For buildings valued over £0.500m consideration will be given as to whether or not there is any significant part which requires a separate component, such as the roof or any specialist item of plant or equipment.

The land element will continue to be considered as a separate asset with its own valuation which, except in very unusual circumstances, will not be subject to depreciation.

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.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Assets Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

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. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £0.010m are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. Capital Receipts may also be used under the Flexible Use of Capital Receipts which allows local authorities to fund revenue expenditure incurred to generate ongoing savings.

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

Heritage Assets

Heritage Assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations.

Recognition and Measurement

Assets have been valued at cost or insurance valuation if this information is readily available. Where neither is obtainable at a cost commensurate with the benefits of doing so the assets are not recognised on the Balance Sheet.

Impairment

The carrying amounts of heritage assets are reviewed where there is evidence of impairment. Any impairment is recognised and measured in accordance with the Authority's general policy on impairment.

Disposals

Disposal proceeds are disclosed separately and accounted for in accordance with the statutory accounting requirements relating to capital receipts.

The Authority's museums are included and accounted for as operational assets within Property, Plant and Equipment.

Investment Property

Investment Properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment Properties are measured initially at cost and subsequently at fair value, based on the price that would be received from the sale of the property in an orderly transaction between market participants at the measurement date. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The same treatment is applied to gains and losses on disposal. Rentals received in relation to Investment Properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £0.010m) the Capital Receipts Reserve.

Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant services in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant services in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £0.010m) the Capital Receipts Reserve.

Interests in Companies and Other Entities

The Authority has a material interest in the North Tyneside Trading Company Limited and its subsidiary companies. As a result of this, the financial statements of the group will be consolidated with the Authority's accounts and group accounts will be prepared for 2019/20.

The Authority does not have any other material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities that require consolidation within the group accounts and so these are recorded as financial assets at cost, less any provision for losses.

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 investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

Private Finance Initiative (PFI) and Similar Contracts

PFI and similar 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 Authority is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will normally pass to the Authority at the end of the contracts, the Authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment (See Note 19).

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

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

The amounts payable to the PFI operators each year are analysed into five 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;
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease); and
- Lifecycle replacement costs – proportion of the amount's payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment or revenue expenditure in the relevant service line of the Comprehensive Income and Expenditure Statement when the relevant works are eventually carried out.

Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value 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 Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable (maximum 10 years) when it was repaid. The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

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

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

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

Financial Assets Measured at Amortised Cost

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

Expected Credit Loss Model

The Authority recognises expected credit losses on all of its financial assets held at amortised cost or where relevant FVOCI, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Authority.

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

Financial Assets Measured at Fair Value through Profit of Loss (FVPL)

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

The fair value measurements of the financial assets are based on the following techniques:

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

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

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

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

The Authority has designated its investments in equity instruments to FVOCI for shares held in Newcastle International Airport Limited and North Tyneside Trading Company. This designation once made is irrevocable. The treatment of equity instruments measured at FVOCI is in line with that described in the accounting policy for FVPL.

Provisions and Contingent Liabilities

Provisions

Provisions are made where an event has taken place that gives the Authority 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. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are 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 carried 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 (e.g. 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 Authority settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority 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 Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. The nature of the Authority's main reserves and balances are shown in Note 32 to the Core Financial Statements. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service within the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. 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 kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent useable resources for the Authority – these reserves are explained in the relevant policies.

Estimation Techniques

Estimation techniques are the methods adopted to arrive at estimated monetary amounts for the values of assets, liabilities, gains and losses and changes in reserves in situations where there is uncertainty as to their exact value. Estimation techniques have been used to determine provisions (including redundancy payments and equal pay), reserves, pension liabilities and Business Rate Appeals, as there is uncertainty over the monetary amounts. Except where specified in the CIPFA Code, the Authority has determined the estimation techniques that most closely reflect the economic reality of the transactions.

Collection Fund Statement

Council Tax and Business Rates income included in the Comprehensive Income and Expenditure Statement is the accrued income for the year. However, regulations determine the amount of Council Tax and Business Rates that must be included in the Authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund will be taken to the Collection Fund Adjustment Account and included as a reconciling item in the General Fund Balance Movement in Reserves Statement.

The Balance Sheet includes the Authority's share of the end of year balances in respect of Council Tax and Business Rates relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and arrears.

Events after the Reporting Period

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. 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 where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Joint Arrangements

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

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

Where the Authority has entered into a pooled budget arrangement under Section 75 of the National Health Service Act 2006, the Authority accounts for its share of the assets, liabilities, income and expenditure arising from the activities of the pooled budget, identified in accordance with the pooled budget agreement. The Authority only accounts for its share of the assets, liabilities, revenue and expenses of the arrangement.

Value Added Tax (VAT) (Authority & Group)

Income and Expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from it.

Fair Value measurement

The Authority measures some of its non-financial assets such as surplus assets, assets held for sale and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset 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 to sell the asset or transfer the liability takes place either:

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

The Authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Authority's financial statements are categorised within the fair value hierarchy, as follows:

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

Schools

The *Code of Practice on Local Authority Accounting in the United Kingdom* confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements. Therefore, schools' transactions, cash flows and balances are recognised in each of the financial statements of the Authority as if they were the transactions, cash flows and balances of the Authority.

<u>Trust Schools</u>
In accordance with accounting guidance land and buildings leased to the foundation trust are not included on the Authority's Balance Sheet.

<u>Voluntary Aided Schools</u>
Land and buildings owned by diocesan authorities are not included on the Authority's Balance Sheet.

<u>Academy Schools</u>
Land and buildings transferred to an Academy are removed from the Authority's Balance Sheet in the year that the transfer takes place.

2 Accounting Standards that have been issued but not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 has introduced changes in accounting policy which will be required from 1 April 2020 and may require retrospective application. The accounting policies have been reviewed and it has been concluded that the changes will not have a material impact on the Statement of Accounts.

The changes that have been introduced are in relation to the following International Financial Reporting Standard (IFRS) statements:

- **Amendments to IAS 28 Investments in Associates & Joint Ventures**
  The amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. This amendment is mainly concerned with private sector accounting and is not expected to impact on the Authority.

- **Annual Improvements to IFRS Standards 2015-2017 Cycle**
  This standard is not expected to have a major impact on the Authority as the amendments made as part of this process either clarify the wording in an IFRS Standard or correct relatively minor oversights or conflicts between existing requirements of IFRS Standards.

- **Amendments to IAS19 Employee Benefits**
  The amendments address the accounting when a plan amendment, curtailment or settlement occurs during the reporting period. The amendments require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements.
  The changes will be factored into the actuarial report that the Authority receives from its pension advisors.

3 Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the Total Comprehensive Income & Expenditure figure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure together with movements in reserves under statute.

	Useable Reserves					
2019/20	**General Fund Balances £000s**	**Housing Revenue Account £000s**	**Capital Receipts Reserve £000s**	**Major Repairs Reserve £000s**	**Capital Grants Unapplied £000s**	**Movement in Unuseable Reserves £000s**
Adjustments to the Revenue Resources Amounts by which income and expenditure included in the Comprehensive Income & Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
• Pensions Costs (transferred to (or from) the Pensions Reserve) - Note 33(d)	(13,494)	(3,988)	0	0	0	17,482
• Financial Instruments (transferred to the Financial Instruments Adjustment Account) Note 33(c)	33	0	0	0	0	(33)
• Council Tax and NDR (transfers to or from the Collection Fund) - Note 33(f)	(1,138)	0	0	0	0	1,138
• Holiday Pay (transferred to the Accumulated Absences Reserve) - Note 33(g)	(2,549)	(971)	0	0	0	3,520
• Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure	(547)	(26,498)	0	0	(4,865)	31,910
Total Adjustments to Revenue Resources	**(17,695)**	**(31,457)**	**0**	**0**	**(4,865)**	**54,017**

2019/20	Useable Reserves General Fund Balances £000s	Housing Revenue Account £000s	Capital Receipts Reserve £000s	Major Repairs Reserve £000s	Capital Grants Unapplied £000s	Movement in Unuseable Reserves £000s
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	673	6,295	(6,968)	0	0	0
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(1,874)	0	1,874	0	0	0
Posting of Housing Revenue Account resources from revenue to the Major Repairs Reserve - Note 47	0	12,401	0	(12,401)	0	0
Statutory/Voluntary provision for the repayment of debt (transfer from the Capital Adjustment Account) – Note 33(b)	17,261	3,895	3,003	0	0	(24,159)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) – Note 33(b)	1,074	12,012	0	0	0	(13,086)
Total Adjustments between Revenue and Capital Resources	**17,134**	**34,603**	**(2,091)**	**(12,401)**	**0**	**(37,245)**

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2019/20	Useable Reserves					
	General Fund Balances £000s	Housing Revenue Account £000s	Capital Receipts Reserve £000s	Major Repairs Reserve £000s	Capital Grants Unapplied £000s	Movement in Unuseable Reserves £000s
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure – Note 33(b)	0	0	357	0	0	(357)
Use of the Major Repairs Reserve to finance capital expenditure – Note 47	0	0	0	10,800	0	(10,800)
Application of capital grants to finance capital expenditure – Note 33(b)	0	0	0	0	6,018	(6,018)
Total Adjustments to Capital Resources	**0**	**0**	**357**	**10,800**	**6,018**	**(17,175)**
TOTAL ADJUSTMENTS	**(561)**	**3,146**	**(1,734)**	**(1,601)**	**1,153**	**(403)**

2018/19	Useable Reserves					
	General Fund Balances £000s	Housing Revenue Account £000s	Capital Receipts Reserve £000s	Major Repairs Reserve £000s	Capital Grants Unapplied £000s	Movement in Unuseable Reserves £000s
Adjustments to the Revenue Resources Amounts by which income and expenditure included in the Comprehensive Income & Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
• Pensions Costs transferred to or from the Pensions Reserve) – Note 33(d)	(30,349)	(1,033)	0	0	0	31,382
• Financial Instruments (transferred to the Financial Instruments Adjustment Account) – Note 33(c)	33	0	0	0	0	(33)
• Council Tax and NDR (transfers to or from the Collection Fund) – Note 33(f)	28	0	0	0	0	(28)
• Holiday Pay (transferred to the Accumulated Absences Reserve) – Note 33(g)	(1,355)	(41)	0	0	0	1,396
• Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure	(23,157)	(26,812)	0	0	(6,776)	56,745
Total Adjustments to Revenue Resources	**(54,800)**	**(27,886)**	**0**	**0**	**(6,776)**	**89,462**

2018/19	Useable Reserves General Fund Balances £000s	Housing Revenue Account £000s	Capital Receipts Reserve £000s	Major Repairs Reserve £000s	Capital Grants Unapplied £000s	Movement in Unuseable Reserves £000s
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	1,100	6,782	(7,882)	0	0	0
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(1,874)	0	1,874	0	0	0
Posting of Housing Revenue Account resources from revenue to the Major Repairs Reserve – Note 47	0	12,489	0	(12,489)	0	0
Statutory/Voluntary provision for the repayment of debt (transfer from the Capital Adjustment Account) – Note 33(b)	14,542	3,570	2,934	0	0	(21,046)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) – Note 33(b)	258	13,425	0	0	0	(13,683)
Total Adjustments between Revenue and Capital Resources	**14,026**	**36,266**	**(3,074)**	**(12,489)**	**0**	**(34,729)**

2018/19	Useable Reserves General Fund Balances £000s	Housing Revenue Account £000s	Capital Receipts Reserve £000s	Major Repairs Reserve £000s	Capital Grants Unapplied £000s	Movement in Unuseable Reserves £000s
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure – Note 33(b)	0	0	1,738	0	0	(1,738)
Use of the Major Repairs Reserve to finance capital expenditure – Note 47	0	0	0	12,489	0	(12,489)
Application of capital grants to finance capital expenditure – Note 33(b)	0	0	0	0	4,018	(4,018)
Total Adjustments to Capital Resources	**0**	**0**	**1,738**	**12,489**	**4,018**	**(18,245)**
TOTAL ADJUSTMENTS	**(40,774)**	**8,380**	**(1,336)**	**0**	**(2,758)**	**36,488**

4(a) Expenditure and Funding Analysis

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax (and rent) payers how the funding available to the Authority (i.e. government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Authority's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

Adjustments to remove the internal charging within services have been made to the net expenditure chargeable to the General Fund and HRA balances. This is to ensure that the true expenditure and income figures to the Authority are used within the statutory accounts. Therefore, there is a difference between the figures shown in the first column below for each service and those shown in Table 1 on page 7 within the Narrative Statement.

2019/20	Net Expenditure Chargeable to the GF and HRA Balances (After adjustments for Internal Charging) £000s	Adjustments between Funding and Accounting Basis £000s	Net Expenditure in Comprehensive Income & Expenditure Statement £000s
Chief Executive Office	(191)	41	(150)
Commissioning & Asset Management	10,734	17,607	28,341
Corporate Strategy	704	244	948
Environment, Housing & Leisure	26,043	17,276	43,319
Health, Education, Care & Safeguarding	65,351	6,301	71,652
Housing Revenue Account	(9,481)	(8,497)	(17,978)
Law & Governance	420	339	759
Regeneration & Economic Development	1,404	450	1,854
Resources	921	1,467	2,388
Central Costs (including support services)	34,376	(33,352)	1,024
Net Cost of Services	**130,281**	**1,876**	**132,157**
Other Income & Expenditure	(128,036)	(4,461)	(132,497)
(Surplus)/Deficit on provision of service	**2,245**	**(2,585)**	**(340)**

General Fund & HRA Balances at 31 March 2019	(84,162)
Deficit on General Fund & HRA Balances in Year	2,245
General Fund and HRA Balances at 31 March 2020	**(81,917)**

Analysed between General Fund and HRA Balances

	General Fund £000s	HRA £000s	Total £000s
Balances at 31 March 2019	(57,008)	(27,154)	(84,162)
Deficit on Balance in Year	1,997	248	2,245
Balances at 31 March 2020	**(55,011)**	**(26,906)**	**(81,917)**

Adjustments to the General Fund and HRA Balances to arrive at the Comprehensive Income & Expenditure Statement Amounts

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

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

Net Change for Pension Adjustments – net change for the removal of pension contributions and the addition of IAS 19 Employee Benefit pension related expenditure and income:

- For Services this represents the removal of the employer pension contributions made by the Authority as allowed by statute and the replacement with current service costs and past service costs; and
- For Financing and Investment Income & Expenditure the net interest on the defined benefit liability is charged to the CIES.

Other differences between amounts debited/credited to the CIES and amounts payable/receivable to be recognised under statue and include:

- For services this includes adjustments made from accruing compensated absences earned but not taken in the year;

- For Financing and Investment Income & Expenditure the adjustments relate to the timing differences for premiums and discounts; and

- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for Council Tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

2019/20	Adjs for Capital Purposes £000s	Pension Adjs £000s	Other Adjs £000s	Total Adjs £000s
Chief Executive Office	0	43	(2)	41
Commissioning & Asset Management	11,787	3,981	1,839	17,607
Corporate Strategy	0	235	9	244
Environment, Housing & Leisure	13,658	3,006	612	17,276
Health, Education, Care & Safeguarding	754	5,425	122	6,301
Housing Revenue Account	(13,456)	3,987	971	(8,498)
Law & Governance	0	347	(8)	339
Regeneration & Economic Development	323	138	(11)	450
Resources	1,036	443	(11)	1,468
Central Costs (including support services)	(23,212)	(10,107)	(33)	(33,352)
Net Cost of Services	**(9,110)**	**7,498**	**3,488**	**1,876**
Other Operating Expenditure	5,671	0	1,874	7,545
Financing & Investment Income & Expenditure	0	9,983	0	9,983
Taxation & Non Specific Grant Income	(23,128)	0	1,139	(21,989)
Difference between General Fund and HRA (surplus)/deficit and Comprehensive Income & Expenditure Statement (surplus)/deficit	**(26,567)**	**17,481**	**6,501**	**(2,585)**

2018/19	Net Expenditure Chargeable to the GF and HRA Balances (After adjustments for Internal Charging) £000s	Adjustments between Funding and Accounting Basis £000s	Net Expenditure in Comprehensive Income & Expenditure Statement £000s
Chief Executive Office	998	36	1,034
Commissioning & Asset Management	4,400	7,851	12,251
Corporate Strategy	1,209	188	1,397
Environment, Housing & Leisure	26,223	17,010	43,233
Health, Education, Care & Safeguarding	63,027	7,529	70,556
Housing Revenue Account	(13,383)	(7,953)	(21,336)
Law & Governance	419	264	683
Regeneration & Economic Development	1,362	22,775	24,137
Resources	865	1,795	2,660
Central Costs (Includes support services)	37,893	(7,039)	30,854
Net Cost of Services	**123,013**	**42,456**	**165,469**
Other Income & Expenditure	(120,237)	(10,062)	(130,299)
Deficit/(Surplus) on provision of service	**2,776**	**32,394**	**35,170**

The 2018/19 comparator has been restated to reflect the service reporting structure in place for the 2019/20 financial year. Please see Note A for further details.

General Fund & HRA Balances at 31 March 2018	(86,938)
Deficit on General Fund & HRA Balances in Year	2,776
General Fund and HRA Balances at 31 March 2019	**(84,162)**

Analysed between General Fund and HRA Balances

	General Fund	HRA	Total
Balances at 31 March 2018	(58,035)	(28,903)	(86,938)
Deficit on Balances in Year	1,027	1,749	2,776
Balances at 31 March 2019	**(57,008)**	**(27,154)**	**(84,162)**

Adjustments to the General Fund and HRA Balances to arrive at the Comprehensive Income & Expenditure Statement Amounts

2018/19	**Adjustments for Capital Purposes** £000s	**Pension Adjustments** £000s	**Other Adjustments** £000s	**Total Adjustments** £000s
Chief Executive Office	0	33	3	36
Commissioning & Asset Management	5,731	2,165	(37)	7,859
Corporate Strategy	0	172	16	188
Environment, Housing & Leisure	14,040	2,267	703	17,010
Health, Education, Care & Safeguarding	2,980	3,971	578	7,529
Housing Revenue Account	(8,580)	586	41	(7,953)
Law & Governance	0	245	19	264
Regeneration & Economic Development	22,656	105	14	22,775
Resources	1,402	331	62	1,795
Central Costs (includes support services)	(16,641)	9,636	(35)	(7,040)
Net Cost of Services	**21,588**	**19,511**	**1,364**	**42,463**
Other Operating Expenditure	1,869	0	(1,874)	(5)
Financing & Investment Income & Expenditure	0	11,870	0	11,870
Taxation & Non Specific Grant Income	(21,899)	0	(28)	(21,927)
Difference between General Fund and HRA (surplus)/deficit and Comprehensive Income & Expenditure Statement (surplus)/deficit	**1,558**	**31,381**	**(538)**	**32,401**

The 2018/19 comparator has been restated to reflect the service reporting structure in place for the 2019/20 financial year. See Note A.

4(b) Segmental Income

This note contains revenue received from external customers in relation to front line services such as car parking, leisure, catering and housing rents and is analysed on a segmental basis below:

Restated 2018/19 £000s		2019/20 £000s
(124)	Chief Executive Office	(86)
(9,257)	Commissioning & Asset Management	(10,071)
(198)	Corporate Strategy	(219)
(17,813)	Environment, Housing & Leisure	(18,583)
(14,810)	Health, Education, Care & Safeguarding	(16,973)
(60,941)	Housing Revenue Account	(61,297)
(651)	Law & Governance	(690)
(283)	Regeneration and Economic Development	(310)
(1,335)	Resources	(1,249)
(1,491)	Central Costs (including support services)	(1,549)
(106,903)	**Total**	**(110,027)**

The 2018/19 comparator has been restated to reflect the service reporting structure in place for the 2019/20 financial year. Please see Note A for further details.

5 Nature of Expenses

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is on the basis of budget reports analysed by Cabinet. The following analysis provides a breakdown of the figures in the Comprehensive Income and Expenditure Statement by subjective category.

2019/20

	Cost of Services £000s	Other Income & Expenditure £000s	Total £000s
Fees and Charges	(145,810)	0	(145,810)
Government Grants & Contributions	(294,283)	(23,227)	(317,510)
Support Services & Recharges	(8,126)	0	(8,126)
Interest and Investment Income	0	(1,766)	(1,766)
Income in relation to investment properties	0	(109)	(109)
Income from Council Tax/NDR	0	(154,171)	(154,171)
Total Income	**(448,219)**	**(179,273)**	**(627,492)**
Employee Expenses	220,326	11,310	231,636
Other Service Expenses	287,786	0	287,786
Support Services Recharges	22,983	0	22,983
Depreciation, amortisation, impairment and other capital charges	49,281	0	49,281
Interest Payments	0	23,445	23,445
Precepts & Levies	0	11,444	11,444
Payments to Housing Capital Receipts Pool	0	1,874	1,874
Gain on Disposal of Fixed Assets	0	(1,297)	(1,297)
Total Operating Expenses	**580,376**	**46,776**	**627,152**
Deficit/(Surplus) on the provision of services	**132,157**	**(132,497)**	**(340)**

2018/19

	Cost of Services £000s	Other Income & Expenditure £000s	Total £000s
Fees and Charges	(145,344)	0	(145,344)
Government Grants & Contributions	(283,350)	(38,896)	(322,246)
Support Services & Recharges	(4,557)	0	(4,557)
Interest and Investment Income	0	(406)	(406)
Income in relation to Investment Properties	0	(119)	(119)
Income from Council Tax/NDR	0	(137,669)	(137,669)
Total Income	**(433,251)**	**(177,090)**	**(610,341)**
Employee Expenses	207,832	31,930	239,762
Other Service Expenses	280,293	0	280,293
Support Services Recharges	22,633	0	22,633
Depreciation, amortisation, impairment and other capital charges	67,902	0	67,902
Interest Payments	0	23,406	23,406
Precepts & Levies	0	11,510	11,510
Payments to Housing Capital Receipts Pool	0	1,874	1,874
Gain on Disposal of Fixed Assets	0	(1,869)	(1,869)
Total Operating Expenses	**578,660**	**66,851**	**645,511**
Deficit/(Surplus) on the provision of services	**145,409**	**(110,239)**	**35,170**

6 Critical Judgements in Applying Accounting Policies

In applying the Accounting Policies set out in pages 34-52, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

Service Concessions

An examination of the Authority's contracts has resulted in the assets associated with Private Finance Initiative (PFI) schemes for Schools, Street Lighting, Housing, Dudley/Shiremoor Joint Service Centres and Whitley Bay Joint Service Centre being recorded on the Authority's Balance Sheet.

The contract for Waste Management does not meet the criteria under International Financial Reporting Interpretations Committee (IFRIC) 12 and therefore is not included on the Balance Sheet.

Pension Fund Guarantors

The Authority, together with the other Tyne & Wear Councils, is guarantor to the Tyne & Wear Pension Fund in respect of employees of the North East Regional Assembly and the Association of North East Councils. The Tyne & Wear authorities also act collectively as guarantors for the pension liabilities of the North East Regional Employers Organisation (NEREO), Disability North and Percy Hedley.

The authorities involved have agreed with the Pension Fund administrators that if any of the above bodies should cease operating then any pension deficit would be repaid over an agreed repayment period. In the unlikely event of any of these bodies failing, the Authority's share of the potential pension deficit (18%) would need to be considered as part of the overall financial position of that body.

Management have considered the requirements under IAS39 (Financial Instruments: Recognition and Measurement) in respect of these arrangements and it is not felt that they meet the criteria to be included on the Authority's Balance Sheet on the grounds of materiality and unlikely event of the bodies ceasing to exist.

The Authority also acts as guarantor for the following organisations where TUPE (Transfer of Undertakings, Protection of Employment) arrangements of staff have taken place:

- Capita; and
- Lovell Partnership Limited (now Morgan Sindall).

Each of these organisations have acquired a bond to protect the Pension Fund against costs that might arise should their contract with the Authority cease prematurely.

The Authority would be liable for any liability in excess of the level of the bond. Management have considered the requirements under IAS39 in respect of these arrangements and it is not felt that they meet the criteria to be included on the Authority's Balance Sheet on the grounds of materiality and unlikely event of the bodies ceasing to exist.

7 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or which are otherwise inherently 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 Authority's Balance Sheet at 31 March 2020, for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties
Property, Plant & Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. Assets are valued, in accordance with Royal Institute of Chartered Surveyors (RICS) valuation standards, involving the use of a number of estimation techniques including various property indices. These can be volatile at times and may result in valuation changes from year to year. The gross book value (GBV) of the Authority's portfolio is £1,201.155m as at 31 March 2020. A 1% change in asset valuation would equate to a £12.012m change in the GBV. Any change in valuation would also result in a change in depreciation charges. A 1% change in depreciation charges would equate to a £0.317m movement. See Note 19 for more details on PPE.
Fair Value measurement	When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model). Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the authority's assets and liabilities. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates – adjusted for regional factors.
Pensions Liability	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. The Pension Fund engages a firm of specialist actuaries to provide the Authority with expert advice about the assumptions to be applied. See Note 9 page 84 for details of sensitivity analysis of the estimations.

Provisions	The Authority has made a number of provisions, in line with the Code, totalling £8.595m. The provisions include estimated insurance liabilities, equal pay, redundancies, and business rates. Since the introduction of the Business Rates Retention Scheme effective from 1 April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in 2019/20 and earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2020. The estimate has been calculated using the latest Valuation Office (VAO) ratings list of appeals and the analysis of successful appeals to date when providing the estimate of the total provision up to and including 31 March 2020. A provision of £3.357m has been set up in recognition of this. See Note 28.

8 Leasing

Operating leases – Authority as Lessee

The Authority leases a number of buildings on short-term leases which are classified as operating leases. The total rentals payable in 2019/20 were £3.289m (£3.403m in 2018/19).

Undischarged operating lease rentals at 31 March 2020 amounted to £76.898m (£82.001m in 2018/19), comprising the following elements:

31 March 2019 £000s		31 March 2020 £000s
3,323	Due Year 1	3,239
13,257	Due Years 2-5	13,462
65,421	Due after Year 5	60,197
82,001	**Total**	**76,898**

Schools within the Borough use plant and equipment which are financed under the terms of operating leases. These are not included in the above figures on the grounds of materiality.

Operating leases – Authority as Lessor

The Authority has granted a number of leases to organisations (commercial and community) for the use of Council-owned buildings and land. These leases have been accounted for in 2019/20 as being operating leases and the total rental income was £2.673m (£3.186m in 2018/19). The future minimum lease payments expected to be received are:

31 March 2019 £000s		**31 March 2020 £000s**
3,144	Due Year 1	2,624
6,326	Due Years 2-5	3,815
20,353	Due after Year 5	20,975
29,823	**Total**	**27,414**

9 Pension Schemes

Pension schemes accounted for as defined contribution schemes

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

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the DfE uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The scheme has in excess of 3,700 participating employers and consequently the Authority is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2019/20, the Authority paid £12.677m (£9.658m 2018/19) to Teachers' Pensions in respect of teachers' retirement benefits, representing 20.75% of pensionable pay (16.48% 2018/19). The contributions due to be paid in the next financial year are estimated to be £11.168m. The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and are detailed later in this note.

Participation in pension schemes

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

The Authority participates in two post-employment schemes:

- The Tyne & Wear Pension Fund (TWPF), administered locally by South Tyneside Council – this is a funded defined benefit plan with benefits earned up to 31 March 2014 being linked to final salary. Benefits after 31 March 2014 are based on a Career Average Revalued Earnings scheme.

  Details of the benefits earned over the period covered by this note are set out in 'The Government Pension Scheme (LGPS) Regulations 2013' and 'The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014'. The funded nature of the LGPS requires the employer and its employees to pay contributions into the Fund, calculated at a level intended to balance the pension liabilities with investment assets.

  The last actuarial valuation was at 31 March 2019 and the contributions to be paid until 31 March 2021 resulting from that valuation are set out in the Fund's Rates and Adjustment Certificate;

- Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there is no investment assets built up to meet these pension liabilities and cash has to be generated to meet actual pension payments as they eventually fall due.

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

Risks associated with the Fund in relation to accounting

Asset volatility – the liabilities used for accounting purposes are calculated using a discount rate set with reference to corporate bond yields. If assets underperform this yield will create a deficit in the accounts. The Fund holds a significant proportion of growth assets which while expected to outperform corporate bonds in the long term creates volatility and risk in the short term in relation to the accounting figures.

Changes in bond yield – a decrease in corporate bond yields will increase the value placed on the liabilities for accounting purposes although this will be marginally offset by the increase in the assets as a result.

Inflation risk – the majority of the pension liabilities are linked to either pay or price inflation. Higher inflation expectations will lead to a higher liability value. The assets are either unaffected or loosely correlated with inflation meaning that an increase in inflation will increase the deficit.

Life expectancy – the majority of the Fund's obligations are to provide benefits for the life of the member following retirement, so increases in life expectancy will result in an increase in the liabilities.

Discretionary post-retirement benefits

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

Transactions relating to post-employment benefits

The Authority recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Authority is required to make against Council Tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund (and Housing Revenue Account) 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.

The following transactions have been charged to the Comprehensive Income and Expenditure Statement (CIES) during the year:

Pension Revenue Summary	2018/19 £000s				2019/20 £000s			
	TWPF		TPS*	Total	TWPF		TPS*	Total
	Funded	Unfunded			Funded	Unfunded		
Comprehensive Income & Expenditure Statement								
Cost of Services								
Current Service Costs	27,930	0	0	27,930	37,390	0	0	37,390
Past Service Costs	20,230	0	0	20,230	320	0	0	320
Financing and Investment Income and Expenditure								
Net Interest Expense	9,830	660	1,380	11,870	9,610	570	1,130	11,310
Total post-employment benefit charged to the Deficit/(Surplus) on the Provision of Services	57,990	660	1,380	60,030	47,320	570	1,130	49,020
Other post-employment benefit charged to the CIES								
Remeasurement of the net defined benefit liability comprising:								
Return on plan assets (excluding the amount included in the net interest expense)	(35,510)	0	0	(35,510)	(68,130)	0	0	(68,130)
Actuarial (gains)/losses arising on changes in demographic assumptions	(50,480)	(1,180)	(2,180)	(53,840)	(20,970)	(590)	(1,050)	(22,610)
Actuarial (gains)/ losses arising on changes in financial assumptions	67,280	650	1,540	69,470	(24,220)	(280)	(560)	(25,060)
Actuarial (gains)/losses due to liability experience	200	(150)	(3,740)	(3,690)	72,500	(110)	(230)	72,160
Total post-employment benefit charged to the Other Comprehensive Income & Expenditure	(18,510)	(680)	(4,380)	(23,570)	(40,820)	(980)	(1,840)	(43,640)

*This is an unfunded scheme as detailed on page 75.

Pension Revenue Summary	**2018/19 £000s**				**2019/20 £000s**			
	TWPF		**TPS***	**Total**	**TWPF**		**TPS***	**Total**
	Funded	**Unfunded**			**Funded**	**Unfunded**		
Movement in Reserves Statement								
Reversal of net charges made to the (surplus)/deficit for the Provision of Services for post-employment benefits	(57,990)	(660)	(1,380)	(60,030)	(47,320)	(570)	(1,130)	(49,020)
Actual amount charged against the Cost of Services for pensions in the year								
Employer's contributions payable to the scheme	24,068	0	0	24,068	26,998	0	0	26,998
Retirement benefits payable to pensioners	0	1,770	2,810	4,580	0	1,740	2,800	4,540

*This is an unfunded scheme as detailed on page 75.

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Pension assets and liabilities recognised in the balance sheet

The amount included in the Balance Sheet arising from the Authority's obligation in respect of its defined benefit plans is as follows:

	2018/19 £000s				2019/20 £000s			
	TWPF		TPS	Total	TWPF		TPS	Total
	Funded	Unfunded			Funded	Unfunded		
Present value of the defined benefit obligation	(1,258,710)	(24,430)	(48,620)	(1,331,760)	(1,322,570)	(22,280)	(45,110)	(1,389,960)
Fair Value of plan assets	848,960	0	0	848,960	924,470	0	0	924,470
Sub Total	(409,750)	(24,430)	(48,620)	(482,800)	(398,100)	(22,280)	(45,110)	(465,490)
Other movements in the liability (asset) – pension prepayment	(8,848)	0	0	(8,848)	0	0	0	0
Net liability arising from defined benefit obligation	(418,598)	(24,430)	(48,620)	(491,648)	(398,100)	(22,280)	(45,110)	(465,490)

Reconciliation of the movements in the fair value of scheme (plan) assets

	2018/19 £000s				2019/20 £000s			
	TWPF		TPS	Total	TWPF		TPS	Total
	Funded	Unfunded			Funded	Unfunded		
Opening fair value of scheme assets	807,170	0	0	807,170	848,960	0	0	848,960
Interest Income	20,800	0	0	20,800	20,230	0	0	20,230
Remeasurement gain/ (loss):								
• The return on plan assets, excluding the amount included in the net interest expense	35,510	0	0	35,510	68,130	0	0	68,130
Contributions from employer	15,220	1,770	2,810	19,800	18,150	1,740	2,800	22,690
Contributions from employees into the scheme	5,210	0	0	5,210	6,260	0	0	6,260
Benefits paid	(34,950)	(1,770)	(2,810)	(39,530)	(37,260)	(1,740)	(2,800)	(41,800)
Closing fair value of scheme assets	848,960	0	0	848,960	924,470	0	0	924,470

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

Active members	40%
Deferred Pensioners	18%
Pensioners	42%

Reconciliation of present value of the scheme liabilities (defined benefit obligation)

	2018/19				2019/20			
	TWPF		TPS	Total	TWPF		TPS	Total
	Funded £000s	Unfunded £000s	£000s	£000s	Funded £000s	Unfunded £000s	£000s	£000s
Opening balance at 1 April	(1,192,660)	(26,220)	(54,430)	(1,273,310)	(1,258,710)	(24,430)	(48,620)	(1,331,760)
Current Service Cost	(27,930)	0	0	(27,930)	(37,390)	0	0	(37,390)
Interest Cost	(30,630)	(660)	(1,380)	(32,670)	(29,840)	(570)	(1,130)	(31,540)
Contributions by participants	(5,210)	0	0	(5,210)	(6,260)	0	0	(6,260)
Remeasurement (gains) and losses:								
• Actuarial (gains)/losses arising from changes in experience assumptions	(200)	150	3,740	3,690	(72,500)	110	230	(72,160)
• Actuarial (gains)/losses arising from changes in demographic assumptions	50,480	1,180	2,180	53,840	20,970	590	1,050	22,610
• Actuarial (gains)/losses arising from changes in financial assumptions	(67,280)	(650)	(1,540)	(69,470)	24,220	280	560	25,060
Past Service Cost	(20,230)	0	0	(20,230)	(320)	0	0	(320)
Net increase in liabilities from disposals/acquisitions	0	0	0	0	0	0	0	0
Net Benefits paid	34,950	1,770	2,810	39,530	37,260	1,740	2,800	41,800
Closing balance at 31 March	(1,258,710)	(24,430)	(48,620)	(1,331,760)	(1,322,570)	(22,280)	(45,110)	(1,389,960)

Local Government Pension Scheme assets comprised

The assets allocated to the employer in the Fund are notional and are assumed to be invested in line with the investments of the Fund for the purposes of calculating the return to be applied to those notional assets over the accounting period. The Fund is large and holds a significant proportion of its assets in liquid investments. As a consequence, there will be no significant restriction on realising assets if a large payment is required to be paid from the Fund in relation to an employer's liabilities. The assets are invested in a diversified spread of investments and the approximate split of assets for the Fund as a whole (based on data supplied by the Administering Authority) is shown in the disclosures split by quoted and unquoted investments.

The Administering Authority may invest a small proportion of the Fund's investments in the assets of some of the employers participating in the Fund if it forms part of their balanced investment strategy.

	Asset Split 31 March 2019 %	Asset Split 31 March 2020 %		
	Total	Quoted	Unquoted	Total
Equities	65.0	48.0	6.8	54.8
Property	8.8	0.0	9.0	9.0
Government Bonds	4.1	4.1	0.0	4.1
Corporate Bonds	11.7	15.3	0.0	15.3
Cash	2.7	2.3	0.0	2.3
Other*	7.7	8.5	6.0	14.5
Total Assets	100	78.2	21.8	100

*Other holdings may include hedge funds, currency holdings, asset allocation futures and other financial instruments. It is assumed that these will get a return in line with equities.

Basis for estimating assets and liabilities

The Local Government Pension Scheme, Teachers' Pension Scheme and discretionary benefits liabilities have been estimated by Aon Hewitt, an independent firm of actuaries. The latest actuarial valuation of the Authority's liabilities (in respect of the LGPS) took place as at 31 March 2019, whilst the latest actuarial valuation of the discretionary benefits took place as at 31 March 2019. Liabilities have been estimated by the independent qualified actuary on an actuarial basis using the projected unit credit method. The principal assumptions used by the actuary in updating the latest valuation of the Fund for IAS19 purposes were:

	TWPF		TPS	
	2018/19	2019/20	2018/19	2019/20
Mortality assumptions				
Future lifetime from age 65 (currently 65)				
• Men	22.2	21.8	22.9	21.8
• Women	25.3	25.0	25.3	25.0
Future lifetime from age 65 (currently 45)				
• Men	23.9	23.5	n/a	n/a
• Women	27.2	26.8	n/a	n/a

	TWPF Funded		TPS/TWPF Unfunded	
	2018/19	2019/20	2018/19	2019/20
Rate of Inflation (RPI)	3.3%	2.6%	3.3%	2.6%
Rate of Inflation (CPI)	2.2%	2.0%	2.2%	2.0%
Pensions accounts revaluation rate	2.2%	2.0%	n/a	n/a
Rate of increase in salaries	3.7%	3.5%	n/a	n/a
Rate of increase in pensions	2.2%	2.0%	2.2%	2.0%
Rate for discounting scheme liabilities	2.4%	2.3%	2.4%	2.3%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the tables above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period. Sensitivity of unfunded benefits has not been included on materiality grounds. The impact on the Defined Benefit Obligation in the scheme is shown below:

	Increase in Assumption £000s	Decrease in Assumption £000s
Longevity (increase/decrease in 1 year)	(41,930)	42,360
Rate of increase in salaries (increase/decrease by 0.1%)	3,400	(3,370)
Rate of increase in pensions (increase/decrease by 0.1%)	24,070	(23,570)
Rate for discounting scheme liabilities (increase/decrease by 0.1%)	(26,310)	26,840

Commutation
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.

Asset and Liability Matching (ALM) strategy
The Pensions Committee of South Tyneside Council has agreed to an asset and liability matching strategy (ALM) that matches, to the extent possible, the types of assets invested to the liabilities in the defined benefit obligation. The Fund has matched assets to the pensions' obligations by investing in long-term fixed interest securities and index-linked gilt edged investment with maturities that match the benefits payments as they fall due. This is balanced with a need to maintain the liquidity of the Fund to ensure that it is able to make current payments. As is required by the pensions and (where relevant) investment regulations, the suitability of various types of investment have been considered, as has the need to diversify investments to reduce the risk of being invested in too narrow a range. A large proportion of the assets relate to equities (54.8% of scheme assets) and bonds (19.4%). These percentages are materially the same as the comparative year. The scheme also invests in properties as part of the diversification of the scheme's investments (9.0%). The ALM strategy is monitored annually or more frequently if necessary.

Impact on the Authority's cash flows
The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Authority has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The most recent triennial valuation of the fund was carried out as at 31 March 2019.

The Authority anticipates paying £20.100m in contributions to the scheme in respect of the LGPS in 2019/20 for the accounting period to 31 March 2020, £1.770m in respect of unfunded benefits and also £2.850m for enhanced teachers' benefits. The weighted average duration of the defined benefit obligation for the LGPS scheme members is 20.1 years 2019/20 (18.7 years 2018/19).

10 Other Operating Expenditure

The other operating expenditure shown in the Comprehensive Income & Expenditure Statement consists of:

2018/19 £000s		2019/20 £000s
11,510	Levies	11,444
1,874	Payments to the Government Housing Capital Receipts Pool	1,874
(1,869)	(Gains)/Losses on the disposal of non-current assets	(1,297)
11,515	**Total**	**12,021**

11 Financing and Investment Income and Expenditure

The financing and investment income & expenditure shown in the Comprehensive Income & Expenditure Statement consists of:

2018/19 £000s		2019/20 £000s
23,406	Interest payable and similar charges	23,445
11,870	Net Interest Expense (Pensions)	11,310
(406)	Interest receivable and similar income	(1,766)
(119)	Income & expenditure in relation to Investment Properties and changes in their fair value	(109)
34,751	**Total**	**32,880**

12 Taxation and Non-Specific Grant Income

The taxation and non-specific grant income shown in the Comprehensive Income & Expenditure Statement consists of:

2018/19 £000s		2019/20 £000s
(91,218)	Council Tax Income	(94,914)
(26,767)	Retained Business Rates	(41,838)
(19,684)	Business Rates Top Up	(17,419)
(16,997)	Non-Ringfenced Government Grants	(87)
(21,899)	Capital Grants, Contributions & Donated Assets	(23,140)
(176,565)	**Total**	**(177,398)**

13 Grants and Contributions Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2019/20.

2018/19 £000s		2019/20 £000s
	Non-Ringfenced Government Grants	
(16,915)	Revenue Support Grant	0
(82)	Other Non-Ringfenced Government Grants (individually under £1.000m)	(87)
(16,997)		(87)
	Capital Grants and Receipts in Advance	
(5,749)	Department for Education	(7,913)
(2,454)	North East Local Enterprise Partnership (NELEP) – Local Growth Fund	(3,259)
(6,063)	Local Transport Plan	(5,058)
0	Section 278 Highways Act Contributions	(1,678)
(100)	Environment Agency	(1,053)
(605)	Heritage Lottery	0
(6,328)	Section 106 Contributions	(2,067)
(600)	Other Grants and Contributions (individually under £1.000m)	(2,112)
(21,899)		(23,140)

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

31 March 2019 £000s		31 March 2020 £000s
	Capital Grants, Contributions and Donations in advance	
(8,943)	Section 106 Agreements	(11,926)
(48)	Other Grants & Contributions (individually under £1.000m)	(48)
(8,991)	**Total**	**(11,974)**

31 March 2019 £000s		31 March 2020 £000s
	Revenue Grants & Contributions Receipt in Advance	
0	Section 31 Business Rates Reliefs	(4,916)
(361)	Other Grants & Contributions (individually under £1.000m)	(387)
(361)	**Total**	**(5,303)**

The following grants and contributions were credited to the Comprehensive Income and Expenditure Statement within the Cost of Services in 2019/20.

2018/19 £000s		2019/20 £000s
	Credited to Services	
(136,981)	Dedicated Schools Grant	(141,425)
(33,651)	Mandatory Rent Allowances Benefit	(30,244)
(28,738)	Rent Rebates Benefit	(24,369)
(13,372)	Private Finance Initiative	(13,372)
(12,488)	Public Health Grant	(12,317)
(12,558)	Continuing Health Care Contributions	(12,422)
(8,703)	Pupil Premium Grant	(8,882)
(7,314)	Post 16 Education Grant	(6,881)
(6,773)	Improved Better Care Fund Grant	(8,266)
(2,321)	New Homes Bonus	(2,951)
(564)	Section 31 Children's Grant	(1,141)
0	Teachers Pension Grant	(2,704)
(2,300)	Department for Education	(2,267)
(4,194)	Small Business Rate Relief Grant	(4,338)
(1,128)	Physical Education (PE) & Sport	(1,129)
(1,110)	Assessed & supported Year in Employment	0
(1,676)	Adult Social Care Support Grant	(1,761)
(795)	Housing Benefit Administration Grant	(717)
(593)	Teachers Pay Grant	(1,341)
(7,509)	Other Grants and Contributions (individually under £1.000m)	(17,756)
(282,768)	**Total**	**(294,283)**

14 Officers’ Remuneration

This disclosure note is split into two categories; employees and Senior Officers. Table 1 shows employees whose remuneration, excluding employer’s pension contributions, was £50,000 or more. Table 2 sets out details of Senior Officers (by post title) whose salary is between £50,000 and £160,000. There are no Senior Officers whose salary is £160,000 or more per year.

A Senior Officer is defined as any person having responsibility for the management of the Authority, to the extent that the person has power to direct or control the major activities of the Authority, in particular activities involving the expenditure of money, whether solely or collectively with other persons. In North Tyneside Council this is deemed to be the Senior Leadership Team.

Table 3 provides details of exit packages. The packages included within each band are those that have been agreed by the Authority. The agreement may be legal, contractual or constructive at the end of the financial year. The costs include all relevant redundancy costs including compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex gratia payments and other departure costs.

Table 1

2018/19						2019/20				
APT&C	**LEA Teachers**	**VA Teachers**	**Trust Employees**	**Total**	**Remuneration Band**	**APT&C**	**LEA Teachers**	**VA Teachers**	**Trust Employees**	**Total**
32	5	4	36	**77**	£50,000 - £54,999	35	11	2	72	**120**
13	5	3	23	**44**	£55,000 - £59,999	26	3	1	32	**62**
10	6	5	18	**39**	£60,000 - £64,999	13	2	2	16	**33**
5	6	2	8	**21**	£65,000 - £69,999	3	5	4	5	**17**
4	2	1	6	**13**	£70,000 - £74,999	1	5	2	9	**17**
0	0	0	4	**4**	£75,000 - £79,999	3	1	2	3	**9**
1	1	0	4	**6**	£80,000 - £84,999	0	0	0	3	**3**
1	0	0	3	**4**	£85,000 - £89,999	0	1	0	1	**2**
0	1	0	1	**2**	£90,000 - £94,999	0	0	0	1	**1**
0	1	0	2	**3**	£95,000 - £99,999	1	1	0	1	**3**
0	0	0	1	**1**	£100,000 - £104,999	0	0	0	1	**1**
0	0	0	0	**0**	£105,000 - £109,999	0	1	0	1	**2**
0	0	0	0	**0**	£110,000 - £114,999	0	0	0	0	**0**
0	0	0	0	**0**	£115,000 - £119,999	0	0	0	1	**1**
66	**27**	**15**	**106**	**214**	**Total**	**82**	**30**	**13**	**146**	**271**

The above figures include any payments made to individuals in respect of redundancy payments. These payments are included as per The Code's definition of remuneration. This table does not include those senior officers detailed in Table 2 below.

Key
APT&C – Administrative, Professional, Technical & Clerical
LEA – Local Education Authority
VA – Voluntary Aided
Trust Employees – shown for information only as they are not employees of the Authority

Table 2

This table sets out the remuneration disclosures for Senior Officers.

2019/20

Post Holder Information (2019/20)	Salary (including Fees & Allowances) £	Bonuses £	Expense Allowances £	Benefits in Kind (e.g. Car Allowance) £	Total Remuneration excluding Pension Contributions £	Pension Contributions £	Total Remuneration including Pension Contributions £
Chief Executive	153,890	0	0	0	153,890	27,854	**181,744**
Director of Health, Education, Care and Safeguarding	106,359	0	0	0	106,359	21,319	**127,678**
Head of Environment, Housing and Leisure	105,980	0	0	0	105,980	19,251	**125,231**
Head of Law & Governance	93,477	0	0	0	93,477	16,919	**110,396**
Head of Commissioning & Asset Management	93,477	0	0	0	93,477	16,919	**110,396**
Head of Resources	93,477	0	0	0	93,477	16,919	**110,396**
Head of Regeneration & Economic Development	91,289	0	0	0	91,289	16,523	**107,812**
Head of Corporate Strategy	89,635	0	0	0	89,635	16,224	**105,859**
Director of Public Health	89,635	0	0	0	89,635	12,890	**102,525**
Total	**917,219**	0	0	0	**917,219**	**164,818**	**1,082,037**

Post Holder Information (2018/19)	Salary (including Fees & Allowances) £	Bonuses £	Expense Allowances £	Benefits in Kind (e.g. Car Allowance) £	Total Remuneration excluding Pension Contributions £	Pension Contributions £	Total Remuneration including Pension Contributions £
Director of Health, Education, Care and Safeguarding	104,124	0	0	0	104,124	18,874	**122,998**
Chief Executive [1]	101,398	0	0	0	101,398	18,353	**119,751**
Head of Environment, Housing and Leisure	99,666	0	0	0	99,666	18,067	**117,733**
Head of Commissioning & Investment	91,494	0	0	0	91,494	16,644	**108,138**
Head of Finance	91,285	0	0	0	91,285	16,550	**107,835**
Head of Corporate Strategy	87,034	0	0	0	87,034	15,780	**102,814**
Director of Public Health	84,224	0	0	0	84,224	12,133	**96,357**
Acting Head of Regeneration & Economic Development [2]	70,150	0	0	0	70,150	12,697	**82,847**
Acting Head of Regeneration & Economic Development [2]	62,841	0	0	0	62,841	11,254	**74,095**
Acting Head of Law & Governance [3]	59,017	0	0	0	59,017	10,709	**69,726**
Chief Executive [4]	50,820	0	0	0	50,820	9,103	**59,923**
Deputy Chief Executive [5]	40,804	0	0	0	40,804	7,386	**48,190**

Post Holder Information (2018/19)	Salary (including Fees & Allowances) £	Bonuses £	Expense Allowances £	Benefits in Kind (e.g. Car Allowance) £	Total Remuneration excluding Pension Contributions £	Pension Contributions £	Total Remuneration including Pension Contributions £
Head of Law & Governance [6]	39,218	0	0	0	39,218	7,212	**46,430**
Head of Law & Governance [7]	8,703	0	0	0	8,703	1,580	**10,283**
Head of Regeneration & Economic Development [8]	1,654	0	0	0	1,654	299	**1,953**
Total	**992,432**	**0**	**0**	**0**	**992,432**	**176,641**	**1,169,073**

[1] New appointment made in November 2018 (post holder was previously the Deputy Chief Executive from April to July 2018).
[2] Original post holder left at the end of March 2018. Joint Acting Heads of Regeneration from April 2018 to mid-March 2019. New post holder appointed March 2019.
[3] Acting Head of Law & Governance in post until February 2019.
[4] Post holder left August 2018.
[5] Post holder left July 2018
[6] Post holder left August 2018.
[7] New post holder appointed February 2019.
[8] New post holder appointed March 2019.

Table 3
The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below. The exit packages 2018/19 figures are restated to correct small duplications in numbers of packages presented originally. The number of packages is restated for 2018/19 from 63 to 52 but the monetary value remains the same at £1.133m with slight movement between the bands £0-£20,000 and £20,001-£40,000.

Exit package cost band (including special payments) (a)	Number of compulsory redundancies (b)		Number of other departures agreed (c)		Total number of exit packages by cost band (b) + (c)		Total cost of exit packages in each band £000s	
£	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
£0 - £20,000	1	7	34	20	35	27	326	148
£20,001 - £40,000	0	3	10	3	10	6	267	163
£40,001 - £60,000	0	1	4	1	4	2	194	102
£60,001 - £80,000	0	0	1	0	1	0	75	0
£80,001 - £100,000	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	0	2	2	2	2	271	204
Total	**1**	**11**	**51**	**26**	**52**	**37**	**1,133**	**617**

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There is a provision for redundancy payments (see Note 28) included within the Comprehensive Income and Expenditure Statement of £0.018m (£0.018m 2018/19). These figures have been included in the table above. There is also a reserve for redundancy payments of £1.660m (£2.851m 2018/19) (see Note 32) which is not included in the table above.

15 Members' Allowances and Expenses

Total allowances paid to Members during the year were as follows:

2018/19 £000s		2019/20 £000s
617	Basic Allowances	626
166	Special Responsibility Allowances	170
6	Expenses	5
789	**Total**	**801**

16 Related Party Transactions

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority 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 Authority.

Central Government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. Council Tax bills, housing benefits). Grants received from government departments are set out in Note 5 – Nature of Expenses. Note 13 – Grant Income details grant income reported in the Comprehensive Income & Expenditure Statement.

Members of the Council have direct control over the Authority's financial and operating policies. The total of Members' allowances paid in 2019/20 is shown in Note 15. During 2019/20, the Authority had no material dealings with companies in which one or more Members have an interest. However, the Authority paid grants and other sums totalling £8.777m to voluntary and other statutory bodies in which a number Members had declared an interest (£10.062m in 2018/19). The grants were made with proper consideration of declarations of interest. The relevant Members did not take part in any discussion or decision relating to the grants. Details of all these transactions are recorded in the Register of Members' Interest open to public inspection at Law and

Governance Services, Quadrant, The Silverlink North, Cobalt Business Park, North Tyneside, NE27 0BY.

4 Members of the Council declared an interest in relation to Percy Hedley School, 2019/20 payments totalled £1.211m (2018/19 £1.100m). At the 31 March 2020 the Authority raised a creditor for £0.082m for good/services.

1 Members of the Council declared an interest in relation to North Tyneside Carers' Centre, 2019/20 payments of £0.190m (2018/19 £0.191m). No creditors or debtors were raised at the year-end.

1 Member of the Council declared an interest in relation to North Tyneside Citizens Advice Bureau, 2019/20 payments totalled £0.331m (2018/19 £0.392m). No creditors or debtors were raised at the year-end.

Officers – no related party transactions were declared in 2019/20, (no related party transactions in 2018/19).

Other public bodies – The Authority has a pooled budget arrangement with North Tyneside Clinical Commissioning Group. Details are outlined in Note 37.

Entities controlled or significantly influenced by the Authority – Details of where the Authority has an interest in active companies are shown in Note 23.

North of Tyne Combined Authority (NoTCA) – 7 Members of the Authority serve as members of NoTCA boards. During 2019/20 the Authority paid a transport levy of £11.061m (£11.131m in 2018/19 paid to North East Combined Authority).

North Tyneside Trading Company (NTTC) is materially significant to the overall financial position of the Authority and has therefore been consolidated into the Group Accounts.

17 Audit Costs

In 2019/20 the Authority incurred the following fees relating to external audit:

2018/19 £000s		2019/20 £000s
85	Fees payable to the appointed auditor under the Local Audit and Accountability Act 2014	90
0	2018/19 fee	21
7	Fees payable for the certification of grant claims and returns	7
7	Fees payable for the certification of Housing Benefit grant claims and returns	2
99	Total Authority fees payable	**120**
4	Fees payable to external audit with regard to audit services for North Tyneside Trading Company	4
103	Total Group costs	**124**

18 Long Term Contracts – Service Concessions

The Service Concessions entered into by the Authority are three Private Finance Initiative (PFI) Schemes – Schools for the Future, Street Lighting (joint with Newcastle City Council) and North Tyneside Living, and two Local Improvement Finance Trusts (LIFT) to provide Joint Service Centres at Dudley and Whitley Bay.

Schools PFI Scheme
2019/20 was the seventeenth year of a thirty year PFI contract for the construction, maintenance and operation of four schools in the Borough. The contract specifies minimum standards for the services to be provided, with deductions from the fee payable made if facilities are unavailable or performance is below minimum standards. The contractor, Kajima North Tyneside Limited, took on the obligation to construct and maintain the plant and equipment required to operate the schools. The buildings and any plant and equipment installed in them will transfer to the Authority for nil consideration at the end of the contract.

The schools involved in the scheme are Burnside Community High School, Coquet Park First School, Marine Park First School and Western Community Primary School.

Street Lighting PFI Scheme
2019/20 was the sixteenth year of a twenty five year PFI contract for the replacement, maintenance and operation of street lighting provision in the Borough. The contract specifies minimum standards for the services to be provided, with deductions from the fee payable made if facilities are unavailable or performance is below minimum standards. The contractor took on the obligation to replace and maintain the assets required to operate the street lighting across the Borough. The assets will transfer to the Authority for nil consideration at the end of the contract. The operator is Scottish and Southern Electric Contracting.

North Tyneside Living – Housing PFI Scheme
2019/20 was the seventh year of a twenty eight year PFI contract for the construction/ refurbishment, maintenance and operation of twenty six sheltered accommodation schemes in the Borough. The contract specifies minimum standards for the services to be provided, with deductions from the fee payable made if facilities are unavailable or performance is below minimum standards. The contractor, Solutions for North Tyneside, took on the obligation to construct and maintain the building, plant and equipment required to operate the schemes. The assets will transfer back to the Authority for nil consideration at the end of the contract.

Dudley Joint Service Centre (LIFT)
2019/20 was the thirteenth year of a twenty five year Local Improvement Finance Trust (LIFT) contract for the construction, maintenance and operation of a joint service centre at Dudley. The contract specifies minimum standards for the services to be provided, with deductions from the fee payable made if facilities are unavailable or performance is below minimum standards. The contractor, Newcastle & North Tyneside LIFTCo, took on the obligation to construct and maintain the building, plant and equipment required to operate the joint service centre. At the end of the twenty five year contract, the Authority has the right to purchase the building, plant and equipment from the operator.

Whitley Bay Joint Service Centre (LIFT)
2019/20 was the eighth year of a twenty five year Local Improvement Finance Trust (LIFT) contract for the construction, maintenance and operation of a joint service centre at Whitley Bay. The contract specifies minimum standards for the services to be provided, with deductions from the fee payable made if facilities are unavailable or performance is below minimum standards. The contractor, Newcastle & North Tyneside LIFTCo, took on the obligation to construct and maintain the building, plant and equipment required to operate the joint service centre. At the end of the twenty five year contract, the Authority has the right to purchase the building, plant and equipment from the operator.

<u>Property, Plant and Equipment</u>
The assets used to provide the services listed above are recognised on the Authority's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 19.

<u>Payments</u>
The Authority makes an agreed payment under each contract each year, all of which increase each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year, but which is otherwise fixed. Payments remaining to be made under the contracts at 31 March 2020 (excluding any estimation of inflation and availability/performance deductions) are on the following page:

2018/19 Total £000s		Payment for Services £000s	Reimbursement of Capital Expenditure £000s	Interest £000s	2019/20 Total £000s
17,076	Payable in one year	5,246	4,265	8,043	17,554
83,601	Payable within 2-5 yrs	21,807	19,390	29,826	71,023
87,490	Payable within 6-10 yrs	28,318	30,019	30,178	88,515
71,259	Payable within 11-15 yrs	24,627	29,982	20,167	74,776
51,010	Payable within 16-20 yrs	19,883	25,549	10,322	55,754
18,825	Payable within 21-25 yrs	7,952	12,326	1,364	21,642
329,261	**Total**	**107,833**	**121,531**	**99,900**	**329,264**

Although the payments made to the various contractors are described as unitary payments, they have been calculated to compensate the contractors for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The total of the liabilities outstanding to the contractors for the capital expenditure is as follows:

2018/19 £000s		2019/20 £000s
121,121	Balance outstanding at start of year	117,805
(3,676)	Payments made during the year	(4,005)
360	Additional liabilities incurred in the year	89
117,805	**Balance outstanding at year-end**	**113,889**

An additional £4.005m has been recognised on the Authority's Balance Sheet as the value added to the PFI lease liability in relation to the purchase of new equipment under the contract and paid for via the unitary charge payment.

Other than this, there have been no renewals or terminations of the above schemes during 2019/20 and no major works have taken place. There have been no material changes in the arrangements with operators of any of the existing schemes during the year.

19 Property, Plant and Equipment
Council Position

2019/20	Council Dwellings £000s	Other Land & Buildings £000s	Vehicles, Plant, Furniture & Equipment £000s	Infra-structure Assets £000s	Community Assets £000s	Surplus Assets £000s	Assets Under Construction £000s	Total Property, Plant & Equipment £000s	PFI Assets included in Property, Plant & Equipment £000s
Cost or Valuation									
1 April 2019	654,408	254,801	27,158	225,411	8,420	1,561	11,806	1,183,565	148,551
Additions	20,197	10,409	3,859	13,230	0	952	5,536	54,183	1,164
Revaluations increases/(decreases) recognised in the Revaluation Reserve	(418)	1,193	0	0	0	364	0	1,139	(61)
Revaluations increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(18,117)	(5,392)	0	0	0	0	0	(23,509)	(359)
Derecognition - Disposals	(5,518)	(190)	0	0	0	0	0	(5,708)	(77)
Derecognition - Other	0	(72)	(1,623)	(645)	0	0	0	(2,340)	0
Assets reclassified (to)/from Held for Sale	0	(4,035)	0	(1,173)	0	0	(967)	(6,175)	0
Other movements in Cost or Valuation	2,086	(469)	0	5,061	0	536	(7,214)	0	3
At 31 March 2020	**652,638**	**256,245**	**29,394**	**241,884**	**8,420**	**3,413**	**9,161**	**1,201,155**	**149,221**

	Council Dwellings £000s	Other Land & Buildings £000s	Vehicles, Plant, Furniture & Equipment £000s	Infra-structure Assets £000s	Community Assets £000s	Surplus Assets £000s	Assets Under Construction £000s	Total Property, Plant & Equipment £000s	PFI Assets included in Property, Plant & Equipment £000s
Accumulated Depreciation & Impairments									
1 April 2019	0	(13,059)	(11,191)	(57,330)	(704)	(3)	0	(82,287)	(11,761)
Depreciation charge	(14,168)	(7,313)	(3,254)	(6,921)	(14)	(3)	0	(31,673)	(3,798)
Depreciation written out to the Revaluation Reserve	361	3,908	0	0	0	0	0	4,269	294
Depreciation written out to the Surplus/Deficit on the Provision of Services	13,640	2,337	0	0	0	0	0	15,977	1,473
Impairment (losses)/ reversals recognised in the Revaluation Reserve	0	181	0	0	0	0	0	181	0
Impairment (losses)/ reversals recognised in the Surplus/Deficit on the Provision of Services	0	75	0	0	0	(62)	0	13	0
Derecognition – Disposals	167	28	0	0	0	0	0	195	0
Derecognition - Other	0	0	1,623	603	0	0	0	2,226	77
Other movements in Depreciation & Impairment	0	0	0	29	0	0	0	29	0
At 31 March 2020	**0**	**(13,843)**	**(12,822)**	**(63,619)**	**(718)**	**(68)**	**0**	**(91,070)**	**(13,715)**
Net Book Value									
At 31 March 2020	652,638	242,402	16,572	178,265	7,702	3,345	9,161	1,110,085	135,506
At 31 March 2019	654,408	241,742	15,967	168,081	7,716	1,558	11,806	1,101,278	136,791

2018/19	Council Dwellings £000s	Other Land & Buildings £000s	Vehicles, Plant, Furniture & Equipment £000s	Infra-structure Assets £000s	Community Assets £000s	Surplus Assets £000s	Assets under Construction £000s	Total Property, Plant & Equipment £000s	PFI Assets included in Property, Plant & Equipment £000s
Cost or Valuation									
1 April 2018	656,411	235,870	23,239	207,526	8,420	1,198	36,266	1,168,930	135,392
Additions	21,829	7,268	7,555	11,118	0	105	11,347	59,222	1,216
Revaluations increases/(decreases) recognised in the Revaluation Reserve	(909)	14,496	0	0	0	138	0	13,725	11,230
Revaluations increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(19,752)	(25,382)	0	0	0	0	0	(45,134)	832
Derecognition - Disposals	(6,093)	0	0	0	0	0	0	(6,093)	0
Derecognition - Other	0	0	(3,636)	(703)	0	(105)	0	(4,444)	(119)
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0	0
Other movements in Cost or Valuation	2,922	22,549	0	7,470	0	225	(35,807)	(2,641)	0
At 31 March 2019	**654,408**	**254,801**	**27,158**	**225,411**	**8,420**	**1,561**	**11,806**	**1,183,565**	**148,551**

2018/19	Council Dwellings £000s	Other Land & Buildings £000s	Vehicles, Plant, Furniture & Equipment £000s	Infra-structure Assets £000s	Community Assets £000s	Surplus Assets £000s	Assets under Construction £000s	Total Property, Plant & Equipment £000s	PFI Assets included in Property, Plant & Equipment £000s
Accumulated Depreciation & Impairments									
1 April 2018	0	(7,675)	(12,195)	(51,699)	(690)	0	0	(72,259)	(9,845)
Depreciation charge	(14,192)	(8,180)	(2,632)	(6,334)	(14)	0	0	(31,352)	(3,737)
Depreciation written out to the Revaluation Reserve	402	983	0	0	0	0	0	1,385	336
Depreciation written out to the Surplus/Deficit on the Provision of Services	13,605	680	0	0	0	0	0	14,285	1,367
Impairment (losses)/ reversals recognised in the Revaluation Reserve	0	39	0	0	0	0	0	39	0
Impairment (losses)/ reversals recognised in the Surplus/Deficit on the Provision of Services	0	938	0	0	0	0	0	938	0
Derecognition – Disposals	185	0	0	0	0	0	0	185	0
Derecognition - Other	0	0	3,636	703	0	0	0	4,339	119
Other movements in Depreciation & Impairment	0	156	0	0	0	(3)	0	153	0
At 31 March 2019	**0**	**(13,059)**	**(11,191)**	**(57,330)**	**(704)**	**(3)**	**0**	**(82,287)**	**(11,760)**
Net Book Value									
At 31 March 2019	654,408	241,742	15,967	168,081	7,716	1,558	11,806	1,101,278	136,791
At 31 March 2018	656,411	228,195	11,044	155,827	7,730	1,198	36,266	1,096,671	125,547

The following statement shows progress of the Authority's rolling programme for the revaluation of Property, Plant & Equipment. The basis for valuation is set out in the Statement of Accounting Policies (page 40).

	Council Dwellings £000s	Other Land & Buildings £000s	Surplus Assets £000s	Total £000s
Valued at current value as at:				
2016/17	0	7,813	0	7,813
2017/18	0	56,137	0	56,137
2018/19	0	112,916	1,071	113,987
2019/20	652,638	79,379	2,342	734,359
Gross Book Value	**652,638**	**256,245**	**3,413**	**912,296**

Split of Council Dwellings

Sheltered Housing Accommodation	70,268
Housing with Multiple Occupants	1,839
Homeless Units	867
General Housing Stock	579,664
Total	**652,638**

(i) General Housing Stock within Council Dwellings are valued at current cost less a reduction of 44% for Social Housing use:

	£000s
Vacant Possession Value at 31 March 2020	1,317,420
Social Housing Adjustment	(737,755)
Net Book Value after Adjustment for Social Housing	**579,665**

Note 43 provides more details of the housing stock.

Property, Plant and Equipment – Group Position

2018/19	Total Property, Plant and Equipment £000s	2019/20	Total Property, Plant and Equipment £000s
Net Book Value			
Authority - Total Property, Plant and Equipment	1,101,278		1,110,085
North Tyneside Trading Company (NTTC)	4,019		5,448
At 31 March 2019	**1,105,297**	**At 31 March 2020**	**1,115,533**

The 2019/20 NTTC values consists of property £5.425m and land £0.023m (2018/19 property £3.996m, land £0.023m).

20 Assets Held for Sale

31 March 2019 £000s		31 March 2020 £000s
239	Balance at 1 April	239
0	Additions to assets held for sale	6,146
0	Impairment Losses	(2,770)
0	Assets declassified as held for sale	0
0	Assets Sold	(44)
239	Balance at 31 March	**3,571**

The above assets have been measured on the Balance sheet at fair value using the following valuation techniques:

Input Level in Fair Value Hierarchy	Valuation Technique used to measure Fair Value	31 March 2019 Fair Value £000s	31 March 2020 Fair Value £000s
Level 3	Measurement technique uses significant unobservable inputs to determine the fair value measurements.	239	3,571

21 Summary of Capital Expenditure and Sources of Finance

2018/19 £000s		2019/20 £000s
653,085	**Opening Capital Financing Requirement**	**652,431**
	Capital Investment	
59,222	Property, Plant & Equipment	54,183
0	Investment Properties	0
2,179	Share Capital	2,409
803	Intangible Assets	458
0	Assets Held for Sale	0
1,784	Capital Loans	1,948
139	Heritage Assets	8
5,699	Revenue Expenditure Funded from Capital Under Statute	6,912
69,826		**65,918**
	Sources of Finance	
(1,738)	Capital Receipts	(357)
0	Capital Receipts Set Aside - GF	0
(2,934)	Capital Receipts Set Aside - HRA	(3,003)
(21,190)	Government Grants and Other Contributions	(29,537)
(12,489)	Major Repairs Reserve	(10,800)
(13,684)	Direct Revenue Contributions	(13,087)
(18,445)	Minimum Revenue Provision	(22,601)
(70,480)		**(79,385)**
652,431	**Closing Capital Financing Requirement**	**638,964**
	Explanation of Movements in Year	
(3,104)	(Decrease)/Increase in underlying need to borrow (supported by Government financial assistance)	(3,104)
5,994	(Decrease)/Increase in underlying need to borrow (unsupported by Government financial assistance)	(6,521)
(3,544)	Movement in Assets acquired under PFI or similar Contracts	(3,842)
(654)	**(Decrease)/ Increase in Capital Financing Requirement**	**(13,467)**

22 Capital Commitments

Council approved the General Fund Investment Plan and the Housing Investment Plan for 2019-2023 on 20 February 2020. The current contractually committed schemes contained within the approved plan comprise of:

31 March 2019 £000s		31 March 2020 £000s
4,870	Central Services	1,973
53	Children's & Education Services	57
682	Leisure Services	54
7,446	Environment & Regulatory Services	7,310
2,347	Highways & Transport	803
1,237	Housing Services	887
77	Planning	225
16,712		**11,309**

Major schemes within the above totals include:

	£000s
Street Lighting PFI	7,310
HRA Housing Services	524
Local Transport Plan & Highways	803
Operational Depot Accommodation Review	816

23 Long Term Investments

31 March 2019 £000s		31 March 2020 £000s
10,886	£1 Ordinary shares in Newcastle Airport Local Authority Holding Company Ltd	7,272
5,159	£1 Ordinary shares in North Tyneside Trading Company	7,568
0	Kier North Tyneside Limited – 200 £1 “A” ordinary shares	0
16,045	**Long Term Investments - Authority**	**14,840**
(2,179)	Intra group investments excluded	**(4,577)**
13,866	**Long Term Investments - Group**	**10,263**

Newcastle Airport Local Authority Holding Company Ltd

The Council redesignated its Newcastle Airport equity instrument, previously held as available for sale assets under IAS39, as fair value through other comprehensive income under IFRS9 classifications. This decision protects Council taxpayers from any future movements in the value of these shareholdings until such time as the shares are sold or released.

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. In consideration of this transfer the Authority received shares in the new company.

On 4 May 2001, the seven local authority shareholders of NIAL (the 'LA7') created NIAL Holdings Ltd which is 51% owned by LA7 and 49% owned by AMP Capital Investors Limited following their purchase on 16 November 2012. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Ltd, a company wholly owned by the seven authorities. The Newcastle Airport Local Authority Holding Company Ltd has a called-up share capital of 10,000 shares with a nominal value of £1 each. North Tyneside Council holds a 12.41% interest in the company valued at £7.272m (£10.886m in 2018/19). The shares are not held for trading outside of the LA7.

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially impair the valuation. The spread of COVID-19 across the world towards the end of 2019/20 led to a sudden decline in air travel prompting the value of the shareholding to be impaired.

Through its shares in Newcastle Airport Local Authority Holding Company Limited the Authority has an effective shareholding of 6.33% in Newcastle International Airport Limited (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of Newcastle International Airport Ltd (Registered No 2077766) is the provision of landing services for both commercial and freight operators.

A dividend of £0.633m was received for the year ended 31 December 2019 (£0.000m was received for the year ended 31 December 2018).

Members of the LA7, excluding North Tyneside Council, entered into a loan agreement with NIAL Group Limited in 2012/13, issuing £67.665m shareholder loan notes.

NIAL Group Ltd made a profit before tax of £11.007m and a profit after tax of £7.502m for the year ended 31 December 2018. In the previous year, the Group made a profit before tax of £10.443m and a profit after tax of £7.435m.

Significant Observable Inputs – Level 3

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

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

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

A request for a copy of NIAL Group Limited accounts should be made in writing to the following address:
Head of Finance, South Tyneside Council, Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear, NE33 2RL.

Kier North Tyneside Limited

A contract with Kier North Tyneside Limited was established in September 2009, to deliver the housing and public building maintenance, housing programmed works and general capital works for North Tyneside Council. The Authority has a 20% holding in Kier North Tyneside Limited as a long term investment (200 £1 "A" ordinary shares).

Kier North Tyneside Limited was incorporated on 8 June 2009 and started a contract with the Authority on 6 September 2009 which ran to 31 March 2019. The Authority decided not to grant the optional 5 year contract extension and the services transferred back to the Authority on 1 April 2019.

The Authority received a dividend of £0.400m during 2019/20 (£0.250m in 2018/19) from Kier North Tyneside Limited.

North Tyneside Trading Company (NTTC)

The Authority has three live and two dormant trading companies at present:

• North Tyneside Trading Company (Development) Limited (no. 09651100) was incorporated in 2015 in order to deliver part of the Authority's affordable homes programme. The company constructed 13 properties in 2016/17 and has since purchased a further 35 properties on the open market in line with its purchasing strategy. All the homes are rented out at affordable rents. The company is now trading as Aurora Affordable Homes.

• Aurora Properties (Sale) Limited (no. 10690739) was incorporated in 2017 with the aim of providing homes for sale on the open market. It completed its first project in 2018/19 at Wallington Court and its second and third projects are underway at the Avenue site (Empress Point) in Whitley Bay and Northumberland Square in North Shields respectively.

• North Tyneside Trading Company (Consulting) Limited (no. 08326801) was incorporated in 2012 with the objective to provide services to other public bodies, and any other customers (whether public bodies or not) as considered appropriate; it is currently dormant.

• Aurora Properties (Rental) Limited (no. 10645895) was incorporated in 2017 with the aim of providing homes to be let at a market rent; it is currently dormant.

Funding for the purchase and construction of homes is provided by the Authority in the form of equity, which the company then passes on as equity funding to its subsidiaries.

In addition, Aurora Properties (Sale) Limited also receives loan funding directly from the Authority.

In 2019/20 financial year, 2,398,000 £1 Ordinary Shares were purchased in North Tyneside Trading Company by the Authority which in turn purchased £1,464,000 of equity in North Tyneside Trading Company (Development) Limited and £934,000 of equity in Aurora Properties (Sale) Limited. In addition, £1,941,000 of loan funding was provided to Aurora Properties (Sale) Limited by the Authority. This funding was used as a payment for the purchase of properties, land and construction works on site.

A dividend of £0.500m was received for the year ended 31 March 2020 (£0.000m was received for the year ended 31 March 2019).

The Code of Practice requires local authorities with interests in subsidiaries, associates and joint ventures to produce group accounts in addition to their single entity financial statements where their interest is considered material. NTTC is materially significant to the overall financial position of the Authority and has therefore been consolidated into the group accounts.

Audited financial statements for the North Tyneside Trading Company and subsidiaries for their accounting period ending 31 March 2020 will be freely available from the Companies House website in due course; previous years audited financial statements are already available.

24 Short Term Debtors

This table shows the amounts owed to the Authority for which payments have not been received by 31 March 2020, but which should be repaid within one year. The figures below are net of impairment allowances set aside.

31 March 2019 £000s		31 March 2020 £000s
7,033	Central Government Bodies	4,721
900	Other Local Authorities	2,704
4,237	NHS Bodies	6,174
53,548	Other Entities and Individuals	62,193
65,718	**Total Authority Debtors**	**75,792**
42	Debtors – North Tyneside Trading Company	79
0	Intra-group debtors to be excluded	(500)
65,760	**Total Group Debtors**	**75,371**

This year the Authority set aside a sum of £20.919m (£18.506m 2018/19) to cover bad and doubtful debts. Of this £6.863m (£7.900m 2018/19) relates to the General Fund, £4.286m (£3.451m 2018/19) relates to the Housing Revenue Account and £9.770m (£7.155m 2018/19) relates to the Collection Fund.

25 Cash and Cash Equivalents

31 March 2019 £000s		31 March 2020 £000s
89	Cash held by the Authority	84
11,063	Schools Cash at Bank	11,187
(13,611)	Bank Current Accounts	(26,529)
12,300	Short term deposits	52,107
9,841	**Total Authority Cash and Cash Equivalents**	**36,849**
396	Cash & Cash Equivalents – North Tyneside Trading Company	443
10,237	**Total Group Cash and Cash Equivalents**	**37,292**

26 Short Term Borrowing

31 March 2019 £000s		31 March 2020 £000s
(9,181)	Public Works Loans Board (PWLB)	(3,676)
(70,862)	Market Loans (including other local authorities)	(53,610)
0	Lender's Option Borrower's Option (LOBO)	(10,162)
(80,043)	**Total**	**(67,448)**

27 Short Term Creditors

The table below shows an analysis of the Authority's creditors as at the 31 March 2020.

31 March 2019 £000s		31 March 2020 £000s
(5,127)	Central Government Bodies	(9,769)
(4,403)	Other Local Authorities	(6,908)
(1,198)	NHS Bodies	(2,511)
(28,884)	Other Entities and Individuals	(31,441)
(39,612)	**Total Authority Creditors**	**(50,629)**
(270)	Creditors – North Tyneside Trading Company	(771)
0	Intra group creditors to exclude	500
(39,882)	**Total Group Creditors**	**(50,900)**

28 Provisions

Provisions have been made for known liabilities uncertain as to the amount or timing, in compliance with IAS37.

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	Long Term	Short Term	
	Estimated Insurance Liabilities (a) £000s	General Provisions (b) £000s	Total £000s
Balance at 1 April 2018	(3,833)	(1,750)	(5,583)
Additional provisions made	(978)	(640)	(1,618)
Amounts written off	0	145	145
Amounts used	437	107	544
Balance at 31 March 2019	**(4,374)**	**(2,138)**	**(6,512)**

	Long Term	Short Term	
	Estimated Insurance Liabilities (a) £000s	General Provisions (b) £000s	Total £000s
Balance at 1 April 2019	(4,374)	(2,138)	(6,512)
Additional provisions made	0	(4,038)	(4,038)
Amounts written off	0	0	0
Amounts used	359	96	455
Balance at 31 March 2020	**(4,015)**	**(6,080)**	**(10,095)**

(a) Provision for Estimated Insurance Liabilities

The provision includes estimated figures for known claims against the Insurance Reserve. Due to the varied nature of these claims it is not practicable to set out expected timings of individual claims.

(b) General Provisions

The main element of the general provision relates to Business Rates Appeals of £3.357m.

The provision in relation to Business Rates arises from the localisation of Business Rates which became effective from the 1st April 2013. The Authority has set aside a provision for any potential liabilities as a result of business rate payers' appeals against rateable valuations.

Long term provisions have not been discounted as this is not expected to have a material impact on the Accounts.

29 Long Term Borrowing

The Authority's total outstanding debt repayable over 12 months as at 31 March 2020 is a principal of £402.443m. The following table analyses the debt by lender and maturity:

31 March 2019 £000s		31 March 2020 £000s
	(a) by lender category	
(353,443)	Public Works Loan Board (PWLB)	(377,443)
0	Market Loans (including other local authorities)	(15,000)
(20,000)	Lender's Option Borrower's Option (LOBO) – Commerzbank	(10,000)
(373,443)		(402,443)
	(b) by maturity	
(11,000)	Maturing between 1 and 2 years	(15,000)
(19,000)	Maturing between 2 and 5 years	(24,000)
(21,575)	Maturing between 5 and 10 years	(38,475)
(321,868)	Maturing more than 10 years	(324,968)
(373,443)		**(402,443)**

30 Long Term Creditors

The table below shows an analysis of the Authority's creditors as at 31 March 2020.

31 March 2019 £000s		31 March 2020 £000s
(25)	Central Government Bodies	(25)
(2,066)	Other Entities and Individuals	(2,021)
(2,091)	**Total**	**(2,046)**

31 Useable Reserves

31 March 2019 £000s		31 March 2020 £000s
(57,008)	General Fund Balances and Reserves (See Note 32)	(55,011)
(27,154)	Housing Revenue Account Balance and Reserves (See Note 32)	(26,906)
(8,351)	Capital Receipts Reserve	(10,085)
(2,231)	Major Repairs Reserve	(3,832)
(6,969)	Capital Grants Unapplied	(5,816)
(101,713)	**Total Authority Useable Reserves**	**(101,650)**
(5,352)	Useable Reserves – North Tyneside Trading Company	(8,111)
2,179	Intra group transactions	4,578
(104,886)	**Total Group Useable Reserves**	**(105,183)**

31 (a) General Fund Balance including Earmarked Reserves Balances

The General Fund is the statutory fund into which all the receipts of the Authority are required to be paid and out of which all liabilities of the Authority are met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payment 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 Authority is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Authority is required to recover) at the end of the financial year. Note 32 provides more details on the Authority's reserves and balances position.

31 (b) Housing Revenue Account Balance including Reserves

The Housing Revenue Account balance reflects the statutory obligation to maintain a revenue account for local authority 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 1989 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. The Housing Revenue Account Income and Expenditure Statement is shown on pages 147-155.

31 (c) Capital Receipts Reserve

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. There is also an option to use these receipts to finance certain revenue expenditure under the flexible use of capital receipts guidance. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.

31 (d) Major Repairs Reserve (MRR)

The Authority is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year-end. See page 152 for details of the reserve.

31 (e) Capital Grants Unapplied

The Capital Grants Unapplied Account holds the grants and contributions received towards capital projects for which the Authority 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.

32 Reserves & Balances

	Balance 1 April 2019 £000s	Transfers out 2019/20 £000s	Transfers in 2019/20 £000s	Balance 31 March 2020 £000s
General Fund Balances				
School Balances	(1,599)	1,434	0	(165)
General Fund	(6,804)	0	(196)	(7,000)
Total General Fund Balances	(8,403)	1,434	(196)	(7,165))
General Fund Reserves				
Strategic Reserve	(14,597)	0	(892)	(15,489)
Insurance Reserve	(7,297)	452	(1,144)	(7,989)
COVID-19 Local Authority Support Grant	0	0	(6,089)	(6,089)
Support Change Fund Programme	(4,894)	1,203	0	(3,691)
Street Lights PFI Reserve	(3,350)	601	(31)	(2,780)
Redundancy & Remuneration Reserve	(2,851)	1,191	0	(1,660)
Schools PFI Lifecycle costs (capital)	(2,865)	902	(269)	(2,232)
Education PFI Reserve	(1,328)	463	(200)	(1,065)
Dudley & Shiremoor Joint Service Centres	(1,202)	86	(146)	(1,262)
Whitley Bay Customer First Centre PFI	(754)	17	(41)	(778)
General Fund Reserves (individually under £1.000m)	(5,670)	1,727	(781)	(4,724)
Other Grants (individually under £1.000m)	(3,051)	1,836	(2,134)	(3,349)
Dedicated Schools Grant *	(746)	746	3,262	3,262
Total General Fund Reserves	(48,605)	9,224	(8,465)	(47,846)
Total General Fund Balances & Reserves	(57,008)	10,658	(8,661)	(55,011)
HRA Balances & Reserves				
HRA Balances	(7,304)	0	(500)	(7,804)
North Tyneside Living PFI Reserve	(12,221)	1,549	(918)	(11,590)
New Build Council Housing	(2,627)	1,185	0	(1,442)
Housing PFI Lifecycle Costs	(3,731)	274	(994)	(4,451)
HRA Reserves (individually under £1.000m)	(1,271)	88	(436)	(1,619)
Total HRA Balances & Reserves	(27,154)	3,096	(2,848)	(26,906)
Total Balances & Reserves	**(84,162)**	**13,754**	**(11,509)**	**(81,917)**

	Balance 1 April 2018 £000s	Transfers out 2018/19 £000s	Transfers in 2018/19 £000s	Balance 31 March 2019 £000s
General Fund Balances				
School Balances	(3,356)	1,757	0	(1,599)
General Fund	(6,804)	0	0	(6,804)
Total General Fund Balances	(10,160)	1,757	0	(8,403)
General Fund Reserves				
Strategic Reserve				
Insurance Reserve	(14,472)	0	(125)	(14,597)
Support Change Fund Programme	(7,018)	48	(327)	(7,297)
Schools PFI Lifecycle costs (capital)	(4,019)	156	(1,031)	(4,894)
Dudley & Shiremoor Joint Service Centres	(3,715)	365	0	(3,350)
Redundancy Reserve	(2,195)	814	(1,470)	(2,851)
Education PFI Reserve	(2,704)	106	(267)	(2,865)
Whitley Bay Customer First Centre PFI	(2,024)	696	0	(1,328)
General Fund Reserves (individually under £1.000m)	(2,000)	2,000	0	0
Dedicated Schools Grant	(1,137)	0	(65)	(1,202)
Weekly Waste Collection Grant	(693)	0	(61)	(754)
Transformation Challenge Grant	(5,131)	1,086	(1,625)	(5,670)
Other Grants (individually under £1.000m)	(2,767)	1,705	(2,735)	(3,797)
Total General Fund Reserves	(47,875)	6,976	(7,706)	(48,605)
Total General Fund Balances & Reserves	(58,035)	8,733	(7,706)	(57,008)
HRA Balances & Reserves				
HRA Balances	(6,083)	0	(1,221)	(7,304)
North Tyneside Living PFI Reserve	(14,116)	2,491	(596)	(12,221)
New Build Council Housing	(4,508)	1,881	0	(2,627)
Housing PFI Lifecycle Costs	(3,012)	0	(719)	(3,731)
HRA Reserves (individually under £1.000m)	(1,184)	87	(174)	(1,271)
Total HRA Balances & Reserves	(28,903)	4,459	(2,710)	(27,154)
Total Balances & Reserves	**(86,938)**	**13,192**	**(10,416)**	**(84,162)**

Purpose of main General Reserves

Reserve	Purpose
Dudley & Shiremoor Joint Service Centres	Established to provide a mechanism which takes account of project cash-flows over a 25-year period to enable the yearly equalisation of the additional costs of the Joint Service Centres.
Education PFI Reserve	Established to provide a mechanism which takes account of project cash-flows over a 30-year period to enable the yearly equalisation of the additional costs of the PFI schools.
Insurance Reserve	Risks covered by the reserve are fire, employer and third party liability, contract guarantee bonds, motor cars, personal accident.
New Build Council Housing	Established to support the provision of New Build Council Housing.
North Tyneside Living PFI	Set up to equalise cash flows relating to the Council's North Tyneside Living PFI scheme.
Redundancy & Remuneration Reserve	Reserve to meet the expected cost of redundancies arising from the Change Programme.
Schools PFI Lifecycle Costs (Capital)	Established to provide a mechanism to reflect the costs of replacing items of equipment over the life of the contract. It doesn't represent additional cash available and lifecycle costs are paid for through the payment to the PFI contractor
Strategic Reserve	Established to address future potential significant external pressures on the Council's budget.
Street Lights PFI Reserve	Established to provide a mechanism which takes account of project cash-flows over a 25 year period to enable the yearly equalisation of the additional costs of the Street Lighting PFI.
Support Change Fund Programme	Reserve to support the implementation of the Change Programme.

Whitley Bay Customer First Centre PFI Reserve	Established to provide a mechanism which takes account of project cash-flows over a 25-year period to enable the yearly equalisation of the additional costs of the Customer First Centre.

*** Note re DSG (Dedicated Schools Grant) Reserve**

North Tyneside, like many Local Authorities in the North East and nationally, continues to experience a significant increase in the numbers of children with Special Educational Needs and Disabilities (SEND). All Local Authorities have a statutory responsibility to keep High Needs provision under review. In North Tyneside, review work has taken place in line with the High Needs Strategic Plan endorsed by School's Forum and the Joint Commissioning Strategy agreed with the Clinical Commissioning Group (CCG). Work has focussed on improving data and intelligence to inform the future pattern of educational provision, considering changes needed to commissioned services and how inclusion in mainstream schools could be strengthened. It has involved the Authority working with School's Forum, the Special School Heads Group, Primary Learning Partnership (Primary Headteachers), Education Improvement Partnership (Secondary Headteachers), the CCG, NHS Foundation Trust Therapeutic Services, the Parent Carer Forum and other stakeholders.

A new North Tyneside Inclusion Strategy will be developed in 2020 to strengthen our capacity to meet the needs of children with SEND in line with our North Tyneside Children's Services Pledges to:

- seek to clarify our vision for inclusion and build consensus around our shared expectations and consistency of approach across the borough;
- describe our shared purpose, principles and priorities across education, social care and health;
- provide the framework and direction to ensure that the right provision is in place to meet the changing needs of children with SEND; enable us to identify the actions we will take to improve the lived experience of our children and young people with SEND.

The overriding aim will be to educate children in their home community and in mainstream provision wherever possible. Schools will be consulted on the next phase of changes to Additionally Resource Provision (ARPs). Opportunities to strengthen out-reach provision from Moorbridge Pupil Referral Unit and from special schools will be considered to support more children with Autism and Social, Emotional and Mental Health (SEMH) issues to remain in mainstream provision. Children with SEND in mainstream schools should be supported through a four-stage cycle of assess, plan, do and review, known as the graduated approach. Schools are expected to make reasonable adjustments and use their best endeavours to meet the needs of children and young people, before seeking statutory assessment or requesting High Needs top-up funding.

Where a mainstream placement with additional support is not appropriate, we will prioritise children accessing a local alternative education or special school placement. Only in exceptional circumstances, for those children with the most complex needs that cannot be met in borough, will an external placement be sourced via an independent, non-maintained special school or college. There has been a significant increase in requests from parents for placements in independent, non-maintained special schools and colleges. Feedback from parents and partner agencies indicate that reasons for requesting an external placement frequently include that the therapy offer is not comparable with that of external, independent providers. Also cited is the need for better joint working between education and health teams in school. This includes joint assessment of need and formulation the Education, Health & Care Plan (EHCP), ensuring the delivery of support to meet need through a consistent staff team, clarity in setting and monitoring SMART outcomes, and issues in the effective communication with parents.

The CCG has recently confirmed additional investment for Child & Adolescent Mental Health Services (CAMHS) Autism provision, therapy services linked to the expansion of specialist education places, and additional capacity for the Community Learning Disability Team for children and adults with complex health and care needs. The Authority, CCG, Northumbria NHS FT and special schools are working together to improve joint working and to ensure that roles and responsibilities are clear and that parents are assured that their child is receiving the support needed to make the expected progress identified in their plan. This approach will be key to building confidence with parents that their child’s needs can be met locally without the need to source an external placement.

33 Unuseable Reserves

31 March 2019 £000s		31 March 2020 £000s
(151,293)	Revaluation Reserve	(152,155)
(315,822)	Capital Adjustment Account	(343,062)
1,234	Financial Instruments Adjustment Account	1,201
491,648	Pensions Reserve	465,490
(1,169)	Deferred Capital Receipts Reserve	(1,166)
(1,157)	Collection Fund Adjustment Account	(19)
5,945	Accumulated Absences Account	9,465
(10,651)	Financial Instruments Revaluation Reserve	(7,037)
18,735	**Total Unuseable Reserves**	**(27,283)**

33(a) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant & Equipment. 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 on which the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2018/19 £000s		2019/20 £000s	
(141,163)	**Balance at 1 April**		(151,293)
(37,490)	Upward revaluation of assets	(10,742)	
22,343	Downward revaluation of assets and impairment losses not charged to the (Surplus)/Deficit on the Provision of Services	5,153	
(15,147)	Surplus on revaluation of non-current assets not posted to the Surplus on the Provision of Services		(5,589)
5,017	Difference between fair value depreciation and historical cost depreciation	4,483	
0	Accumulated gains on assets sold or scrapped	244	
5,017	Amount written off to the Capital Adjustment Account		4,727
(151,293)	**Balance at 31 March**		**(152,155)**

33(b) Capital Adjustment Account

The Capital Adjustment Account absorbs the 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 debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income & 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 Authority as finance for the costs of acquisition, construction and enhancement. 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 Adjustments between Accounting Basis and Funding Basis under Regulations Statement (Note 3) provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2018/19 £000s		2019/20 £000s	
	Balance at 1 April		(315,822)
(314,574)	Reversal of items relating to capital expenditure debited or credited to the CIES		
40,120	Charges for depreciation & impairment of non-current assets	42,679	
21,138	Revaluation losses/(gains) on Property, Plant & Equipment	(715)	
737	Amortisation of intangible assets	814	
5,699	Revenue expenditure funded from capital under statute	6,912	
(2,049)	Revenue expenditure funded from capital under statute (Grant Funded)	(5,256)	
6,013	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	5,671	
71,658			50,105
(5,017)	Adjusting amounts written out of the Revaluation Reserve		(4,727)
66,641	**Net written out amount of the cost of non-current assets consumed in the year**		**45,378**
	Capital financing applied in the year:		
(1,738)	Use of the Capital Receipts Reserve to finance new capital expenditure	(357)	
(12,489)	Use of the Major Repairs Reserve to finance new capital expenditure	(10,800)	
(15,123)	Capital grants & contributions credited to the CIES that have been applied to capital financing	(18,264)	
(4,019)	Application of grants to capital financing from the Capital Grants Unapplied Account	(6,017)	
(21,045)	Statutory and voluntary provision for the financing of capital investment charged against the General Fund and HRA balances	(24,159)	
(13,683)	Capital expenditure charged against the General Fund & HRA balances	(13,086)	(72,683)
208	Movements in the market value of investment Property debited or credited to the CIES		65
(315,822)	**Balance at 31 March**		**(343,062)**

33(c) Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs 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 Authority uses the account to manage premiums and discounts paid or received on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred but reversed out of the General Fund Balances to the account in the Movement in Reserves Statement.

Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on Council Tax. In the Authority's case, this period is the unexpired term of the replacement loan. Discounts are credited to the Comprehensive Income and Expenditure Statement when they are received but reversed out of the General Fund Balances to the account in the Movement in Reserves Statement. Income is posted back to the General Fund Balance in accordance with statutory arrangements over the lesser of the unexpired period of the loan or 10 years.

2018/19 £000s		**2019/20 £000s**	**2019/20 £000s**
1,267	**Balance at 1 April**		1,234
(33)	Proportion of premiums incurred in previous financial years to be charged in accordance with statutory requirements	(33)	
0	Proportion of discounts received in previous financial years to be credited in accordance with statutory requirements	0	
(33)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements		(33)
1,234	**Balance at 31 March**		**1,201**

33(d) Pensions Reserve

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 Authority 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 Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2018/19 £000s		2019/20 £000s
483,836	**Balance at 1 April**	491,648
(23,570)	Remeasurement of the net defined benefit liability	(43,640)
60,030	Reversal of net charges made to the surplus/deficit for the Provision of Services for post-employment benefits	49,020
(28,648)	Employer's pensions contributions and direct payments to pensioners payable in the year included in the Provision of Services	(31,538)
491,648	**Balance at 31 March**	**465,490**

33(e) Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as useable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2018/19 £000s		2019/20 £000s
(1,171)	**Balance at 1 April**	(1,169)
2	Transfer to the Capital Receipts Reserve upon receipt of cash	3
(1,169)	**Balance at 31 March**	**(1,166)**

33(f) Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax payers and Business Rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2018/19 £000s		2019/20 £000s
(1,129)	**Balance at 1 April**	(1,157)
(28)	Amount by which council tax income and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax income and non-domestic rates income calculated for the year in accordance with statutory requirements	1,138
(1,157)	**Balance at 31 March**	**(19)**

33(g) Accumulated Absences Account

The Accumulated Absences Account absorbs the 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 and Housing Revenue Account Balances is neutralised by transfers to or from the account.

2018/19 £000s		2019/20 £000s	2019/20 £000s
4,549	**Balance at 1 April**		5,945
1,543	Adjustment to the accrual required	3,817	
(147)	Adjustment to the debtor in respect of leave & flexi taken in advance	(297)	
1,396	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		3,520
5,945	**Balance at 31 March**		**9,465**

33(h) Financial Instruments Revaluation Reserve

The Financial Instrument Revaluation Reserve contains the gains and/ or losses made by the Authority arising from increases or decreases in the value of its investments that are measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are;

- Revalued downwards or impaired and the gains are lost; and
- Disposed of and the gains are realised

2018/19 £000s		2019/20 £000s
0	**Balance at 1 April**	(10,651)
(10,549)	Transfer from Available for Sale Reserve	0
(102)	Deficit on revaluation of Financial Instrument Revaluation Reserve	3,614
(10,651)	**Balance at 31 March**	**(7,037)**

34 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority 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. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but are disclosed in a note to the accounts.

Housing Revenue Account (HRA) Water Rates Collection

For well over 20 years the Authority has acted as a collection agent on behalf of Northumbrian Water Limited in respect of HRA tenants' water and sewerage charges. In return for this service the Authority has received an annual commission which has been treated as an income stream to the HRA. The treatment of this arrangement has been called into question due to a High Court ruling during 2015-16 (Jones v London Borough of Southwark) which ruled that Local Authorities collecting water rates via the HRA were doing so as a water supplier and not as an agent of the water supplier. This has potentially significant financial implications for those affected, both in terms of the agency fee and where action has been taken against rent arrears that could be deemed to include water rates.

35 School Balances

	Schools with Surpluses £000s	Schools with Deficits £000s	Net Surplus £000s
Balance at 1 April 2019	(9,029)	7,430	(1,599)
Net overspend/(underspend) during year	(659)	2,093	1,434
Balance at 31 March 2020	**(9,688)**	**9,523**	**(165)**

The above balances are committed to be spent solely on the Education Service of the Authority.

36 Deployment of Dedicated Schools Grant

The Authority's expenditure on schools is funded by grant monies (the Dedicated Schools Grant (DSG)) which is provided by the Education Skills & Funding Agency (ESFA). The DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2018. The Schools Budget includes elements for a restricted range of educational services provided on an Authority wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each school.

Details of the deployment of DSG receivable for 2019/20 are as follows:

	Central Expenditure £000s	Individual Schools budget £000s	Total £000s
Final DSG for 2019/20 before Academy recoupment			(156,601)
Academy figure recouped for 2019/20			15,176
Total DSG after Academy recoupment for 2019/20			(141,425)
brought forward from 2018/19 as agreed with the Department for Education			(746)
Agreed initial budgeted distribution in 2019/20	(5,696)	(136,475)	(142,171)
In year adjustments	0	27	27
Final budgeted distribution for 2019/20	(5,696)	(136,448)	(142,144)
Less actual central expenditure	6,510	0	6,510
Less actual ISB deployed to schools	0	138,896	138,896
Carry forward to 2020/21	**814**	**2,448**	**3,262**

Further details on the Dedicated Schools Grant can be found in Note 32 to the accounts.

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37 National Health Services Act 2006 Pooled Funds and similar arrangements

Until 2014/15, the Authority had two separate pooled budget arrangements under section 75 of the National Health Service Act 2006. They were both joint working relationships between health and social care and covered Intermediate Care and the Joint Loan Store. In 2015/16 these arrangements were subsumed into the Better Care Fund.

The Better Care Fund has been established by the Government to provide funds to local areas to support the integration of health and social care and to seek the achievement of national conditions and local objectives. It is a requirement of the Better Care Fund that North Tyneside Clinical Commissioning Group and North Tyneside Council establish a pooled fund for this purpose.

The partners to this pooled fund arrangement are North Tyneside Council and North Tyneside Clinical Commissioning Group (the Authority is the host partner). The pooled fund is subject to an agreement under Section 75 of the National Health Service Act 2006.

The aims and benefits of the partners in entering into this agreement are to:

- Improve the quality and efficiency of health and social care services in North Tyneside;
- Meet the national conditions and local objectives; and
- Make more effective use of resources through the establishment and maintenance of a pooled fund for revenue expenditure on the services.

For 2019/20, the North Tyneside Council Pooled contribution represents the Improved Better Care Fund Grant which is paid to the Authority on the condition that it is pooled in the local Better Care Fund Plan.

The capital elements of the Better Care Fund are non-pooled as they are financed by grant and all spend against them must comply with the grant conditions that make pooling impossible.

COVID-19 Section 75 Agreement

On 19 March 2020, the Government issued new guidance around COVID-19 Hospital Discharge Service Requirements. The Government agreed to fully fund the cost of new or extended out-of-hospital health and social care packages for people discharged from hospital or who otherwise would be admitted into it for a limited time to enable quick and safe discharge and to reduce pressure on acute services.

The Government required that this additional support to CCGs and Local Authorities should be pooled using existing statutory mechanisms. Within North Tyneside a separate s75 agreement has been established. The Local Authority is the host partner and lead commissioner.

The exact level of the CCG's contribution to Pooled Fund is not known at this time. The CCG's contribution will be based on the monthly expenditure submissions to NHS England & Improvement and completed by the CCG and The Authority.

The exact level of the Authority's contribution to the Pooled Fund over the Emergency Discharge Services Period is not known at this time. However, it will be comprised of the level of Council funding the Authority would ordinarily have expected to fund during this period.

For the period from 19 March to 31 March 2020 the CCG's contribution was £0.032m. North Tyneside Council's contribution was nil.

For accounting purposes, the Clinical Commissioning Group and the Authority have agreed that joint control does not exist, and the Authority has only accounted for its share within the Comprehensive Income and Expenditure Statement.

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2018/19 £000s		2019/20 £000s	2019/20 £000s
	Contributions		
1,527	North Tyneside Council (Non Pooled)	1,647	
6,773	North Tyneside Council (Pooled)	8,266	
16,276	North Tyneside Clinical Commissioning Group (Pooled)	16,604	
24,576	**Total Contributions**		**26,517**
	Spend		
1,270	North Tyneside Council spend in year (Non Pooled)	1,493	
257	North Tyneside Council – grant carry forward (Non Pooled)	154	1,647
16,859	North Tyneside Council spend in year (Pooled)		18,842
0	North Tyneside Council carry forward (Pooled)		0
6,190	North Tyneside Clinical Commissioning Group spend in year (Pooled)		6,028
24,576	**Total Spend**		**26,517**

38 Financial Instruments

Financial Instruments are recognised on the Balance Sheet when the Authority becomes party to the contractual provisions of a financial instrument. They are classified based on the business model for holding the instruments and their expected cashflow characteristics.

Financial Liabilities
Financial liabilities are initially measured at fair value and subsequently measured at amortised cost. For the Authority's borrowing this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest).

Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

Financial Assets
To meet Code requirements, financial assets are now classified into one of three categories:

(a) Financial assets held at amortised cost. These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specified amounts. The amount presented in the Balance Sheet represents the outstanding principal received plus accrued interest. Interest credited to the CIES is the amount receivable as per the loan agreement.

(b) Fair Value Through Other Comprehensive Income (FVOCI) – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CIES when the asset is disposed of.

(c) Fair Value Through Profit and Loss (FVTPL). These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CIES as they occur. The Authority has no assets classified as FVTPL during 2019/20.

Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit losses model. Changes in loss allowances (including balances outstanding at the date of derecognition of an asset) are debited/ credited to the Financing and Investment Income and Expenditure line in the CIES. The Authority has set aside £20.920m to cover bad and doubtful debts for debtors.

Changes in the value of assets carried at fair value are debited/ credited to the Financing and Investment Income and Expenditure line in the CIES as they arise.

The value of debtors and creditors reported in the following table are solely those amounts meeting the definition of a financial instrument. The following categories of Financial Instrument are carried on the balance sheet:

	Long-term		Current	
	31 March 2019 £000s	31 March 2020 £000s	31 March 2019 £000s	31 March 2020 £000s
Financial Assets at Amortised Cost				
Investments	0	0	0	0
Debtors	80	80	18,282	24,861
Cash & Cash Equivalents	0	0	9,841	52,100
	80	80	28,123	76,961
Financial Assets – Fair Value through other Comprehensive Income				
Investments (Level 3)	16,045	14,840	0	0
Financial Assets – Fair Value through Profit & Loss				
Cash & Cash Equivalents	0	0	0	0
Debtors	0	0	0	0
Total Financial Assets	**16,125**	**14,920**	**28,123**	**76,961**
Financial Liabilities at Amortised Cost				
Loans principal	373,443	67,448	76,702	402,443
Loans accrued interest	0	0	3,341	2,979
Creditors	0	0	19,468	19,238
	373,443	67,448	99,511	424,660
Other Long Term Liabilities				
PFI Schemes	113,850	109,624	3,955	4,265
Total Financial Liabilities	**487,293**	**177,072**	**103,466**	**428,925**

Financial instruments gains and losses

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

	2019/20			
	Financial Liabilities	Financial assets		Total
	Measured at amortised cost £000s	Measured at amortised cost £000s	Fair value through OCI&E £000s	£000s
Interest on loans	(14,789)	0	0	(14,789)
Interest on PFI Schemes	(8,241)	0	0	(8,241)
Total Interest Payable	(23,030)	0	0	(23,030)
Interest Income	0	175	0	175
Net loss/(gain) for the year	0	0	3,614	3,614
Dividend Received	0	0	1,533	1,533
Net (loss)/gain for the year	**(23,030)**	**175**	**5,147**	**(17,708)**

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	2018/19			
	Financial Liabilities	Financial assets		Total
	Measured at amortised cost £000s	Loans and Receivables £000s	Fair value through OCI&E £000s	£000s
Interest on loans	(14,799)	0	0	(14,799)
Interest on PFI Schemes	(8,514)	0	0	(8,514)
Total Interest Payable	(23,313	0	0	(23,313)
Interest Income	0	87	0	87
Net (loss)/gain for the year	0	0	(102)	(102)
Dividend Received	0	0	250	250
Net (loss)/gain for the year	**(23,313)**	**87**	**148**	**(23,078)**

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Fair value of Financial Assets & Liabilities

Financial liabilities and financial assets classed at amortised cost and financial liabilities at amortised cost are carried in the balance sheet at amortised cost.
Their fair values can be estimated by calculating the present value of cash flows that will take place over the remaining term of the instruments.

31 March 2019			31 March 2020	
Carrying Amount £000s	Fair Value £000s		Carrying Amount £000s	Fair Value £000s
		Financial Assets at amortised cost		
0	0	Financial Assets measured at amortised cost	0	0
18,362	18,362	Debtors	24,941	24,941
9,841	9,841	Cash and Cash Equivalents	52,100	52,100
28,203	28,203		77,041	77,041
		Financial Assets – Fair Value through other comprehensive income		
0	0	Cash and Cash Equivalents	0	0
0	0	Debtors	0	0
16,045	16,045	Investments*	14,840	14,840
		Financial Assets – Fair value through profit and loss		
0	0	Cash and Cash Equivalents	0	0
0	0	Debtors	0	0
16,045	16,045		14,840	14,840
44,248	**44,248**	**Total Financial Assets**	**14,840**	**14,840**
		Borrowings		
359,443	456,902	PWLB**	378,443	451,185
20,000	33,572	LOBO***	20,000	32,050
70,486	70,732	Market Loans	68,470	68,446
449,929	561,206		466,913	551,681

31 March 2019			31 March 2020	
Carrying Amount £000s	Fair Value £000s		Carrying Amount £000s	Fair Value £000s
19,468	19,468	**Creditors**	19,238	19,238
		Other Long Term Liabilities		
		Service Concession and Finance lease liabilities		
117,805	117,805	PFI Schemes+	113,889	113,889
587,202	**698,479**	**Total Financial Liabilities**	**486,151**	**684,808**

* The Authority holds a 6.33% share in Newcastle International Airport Limited. These shares are not traded in an active market. The fair value for Newcastle Airport has been assessed at 31st March 2020 based on a combination of the discounted cash flow of income method together with the guideline public company method of the market approach to valuations. The fair value of shares as at 31 March 2020 is £7.272m (2018/19 £10,886m). North Tyneside Trading Company is wholly owned by the Authority and these shares are not traded in an active market. The fair value shown above has been based on historic cost (cost of shares). Following review there is no evidence that we need to impair any of the value of the trading company. The value of the shares as at 31 March 2020 is £7.568m (2018/19 £5,159m).

**For loans from the Public Works Loans Board (PWLB), replacement rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures.

***For market debt estimated interest rates at 31 March 2020 for loans based on the market rate for an instrument with the same duration and no early repayment or impairment is recognised.

+The fair value of the PFI liabilities are taken to be the same as the carrying value as the loans that make up the PFI contract. Liabilities are held by and are under the control of the PFI provider. The Authority does not have the option to refinance the debt.

Nature and extent of risks arising from Financial Instruments

The Authority's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Authority;
- Liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments; and,
- Market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements.

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Treasury Management Team, under policies approved by Authority in the 'Treasury Management and Annual Investment Strategies'. This provides written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit rate risk and the investment of surplus cash. The annual Treasury Management Strategy is available on the Authority's website.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers. Deposits are not made with banks and financial institutions unless they meet the Authority's minimum credit requirements. This is assessed using information on these institutions provided by our external Treasury Management advisors. The Authority's lending policy is set out in the Annual Investment Strategy.

No credit limits were exceeded during the financial year ended 31 March 2020 and the Authority does not expect any losses from non-performance by any of its counterparties in relation to investments/deposits. No exposure is expected in relation to deposits with financial institutions.

Liquidity risk

As the Authority has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finances to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Treasury Management Strategy is to continually review the profile of maturity dates so that it does not expose the Authority to undue risk.

The maturity analysis of the financial loans is as follows:

31 March 2019 £000s		31 March 2020 £000s
80,043	Less than 1 year	67,448
11,000	Between 1 and 2 years	15,000
19,000	Between 2 and 5 years	24,000
21,575	Between 5 and 10 years	38,475
321,868	More than 10 years	324,968
453,486		**469,891**

Market risk

Interest rate risk

The Authority is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have an impact on the Authority. For instance, a rise in interest rates would have the following effects:

- Borrowings at fixed rates – the fair value of the borrowings will fall; and,
- Investments at fixed rates – the fair value of the assets will fall.

Borrowings and investments are not carried at fair value; so nominal gains and losses on fixed rate borrowings and investments would not impact on the Comprehensive Income and Expenditure Statement.

The Treasury Management Team has an active strategy for assessing interest rate exposure that feeds into the setting and monitoring of the annual budget. The budget is monitored bi-monthly during the year which allows any adverse changes to be accommodated. The analysis will also advise on whether new borrowing taken out is fixed or variable. Authorities are required to disclose the impact of interest rate changes on their financial assets and liabilities. Whilst there is provision in the Treasury Management Strategy for variable loans, no such loans were in place during 2019/20.

According to this investment strategy, as at 31 March 2020, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

31 March 2019 £000s		31 March 2020 £000s
0	Change in fair value of fixed rate investments	0
79,482	Decrease in fair value of fixed rate borrowing liabilities (which does not have an impact on the Comprehensive Income and Expenditure Statement)	77,327

The impact of a fall in interest rates would be as above but with the movements reversed.

Price risk

The Authority does not generally invest in equity shares; consequently, it is not exposed to losses arising from movements in the prices of shares. However, the Authority has invested in North Tyneside Trading Company Limited as outlined in Note 23. The value of this investment is £7.568m and due to the nature of the investment it is deemed to be illiquid.

The Authority also holds an investment in Newcastle Airport Local Authority Holding Company Ltd which has been redesignated as fair value through Other Comprehensive Income & Expenditure under IFRS9 classifications. Further details can be found in Note 23.

Foreign exchange risk

The Authority has no financial assets or liabilities denominated in foreign currencies and thus no exposure to loss arising from movements in exchange rates.

Amounts arising from expected credit losses (Financial Assets at amortised cost)
Allowances for impairment losses have been assessed, applying the expected credit losses model. It has been concluded that expected credit losses are not material. The debtor's figure is net of the provision for bad debt of £5.635m (£6.671m 2018/19).

39 Notes to the Cash Flow – Operating Activities

The cash flows for operating activities include the following items:

2018/19 £000s		2019/20 £000s
156	Interest Received	115
(23,621)	Interest Paid	(23,808)
250	Dividends Received	1,533

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

2018/19 £000s		2019/20 £000s
40,120	Depreciation & Impairment	31,672
21,138	Revaluations	10,289
737	Amortisation of intangible assets	814
(1,650)	Increase/(Decrease) in Creditors	12,936
3,313	(Increase)/Decrease in Debtors	(11,933)
(82)	(Increase)/Decrease in Inventories	(434)
34,971	Movement in the Pension Liability	17,482
6,013	Carrying amount of non-current assets sold	5,671
1,035	Other non-cash items charged to the surplus/deficit on the provision of services	3,648
105,595		**70,145**

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

2018/19 £000s		2019/20 £000s
(7,880)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(6,965)
(23,515)	Any other items for which the cash effects are investing or financing cash flows	(27,986)
(31,395)		**(34,951)**

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40 Notes to the Cash Flow – Investing Activities

Operating activities within the Cash Flow Statement include the following cash flows relating to investing activities.

2018/19 £000s		2019/20 £000s
(61,450)	Purchase of Property, Plant & Equipment, investment property and intangible assets	(56,907)
(2,179)	Purchase of short and long term investments	(2,409)
(1,209)	Other payments for investing activities	(2,078)
7,882	Proceeds from the sale of Property, Plant & Equipment, investment property and intangible assets	6,968
2	Proceeds from short term & long term investments	0
28,816	Other receipts from Investing Activities	32,343
(28,138)	**Net Cash Flows from Investing Activities**	**(22,083)**

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41 Notes to the Cash Flow – Financing Activities

2018/19 £000s		2019/20 £000s
200,486	Cash receipts of short and long term borrowing	106,470
(211,590)	Repayment of short and long term borrowing	(89,801)
(3,676)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(4,014)
(681)	Other payments for financing activities	902
(15,461)	**Net Cash Flows from Financing Activities**	**13,557**

42 Inventories

2018/19 £000s		2019/20 £000s
0	HRA Stock – Construction Contract	327
771	General Fund Stock (libraries, catering)	878
771	Authority Total	**1,205**
3,224	North Tyneside Trading Company (NTTC) Inventories *	6,912
3,995	**Group Total**	**8,117**

* The inventory for NTTC relates to land and buildings.

5.0 Supplementary Financial Statements and Explanatory Notes

5.1 Housing Revenue Account – Income & Expenditure Statement for year ended 31 March 2020

The Housing Revenue Account (HRA) Income & Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations, this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

2018/19 £000s		Note	2019/20 £000s	2019/20 £000s
	Expenditure			
11,550	Repairs & Maintenance		11,467	
11,432	Supervision and Management		13,143	
1,933	PFI Unitary Charge Payments		2,178	
264	Rents, Rates, Taxes and other charges		124	
904	Movement in the allowance for bad debts	46	1,020	
20,904	Capital Charges – including Depreciation, Revaluation and Impairment of non-current assets	51	20,673	
46,987	Total Expenditure			48,605
	Income			
(56,811)	Dwelling rents (Gross)		(56,041)	
(678)	Non-dwelling rents (Gross)		(670)	
(3,010)	Charges for services and facilities		(2,998)	
(2,921)	Contributions towards expenditure		(1,983)	
(7,693)	PFI Credits		(7,693)	
(71,113)	Total Income			(69,385)
(24,126)	**Net cost of HRA services as included in the Comprehensive Income & Expenditure Statement**			**(20,780)**

2018/19 £000s		Note	2019/20 £000s	2019/20 £000s
317	HRA service's share of Central Costs		317	
2,473	HRA share of other amounts included in the whole Authority Cost of Services but not allocated to specific services		2,485	2,802
21,336	**Net Income for HRA Services**			**(17,978)**
	HRA Share of the operating income & expenditure included in the Comprehensive Income & Expenditure Statement			
(874)	Gain on disposal of HRA non-current assets		(944)	
15,185	Interest payable & similar charges		14,753	
(53)	Interest and investment income		(58)	
447	Pensions interest cost & expected return on pensions assets	50	1,329	15,080
(6,631)	**Surplus for the year on HRA Services**			**(2,898)**

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5.2 Movement on the Housing Revenue Account Statement

2018/19 £000s		2019/20 £000s
(28,903)	Balance on the HRA at the end of the previous year	(27,154)
(6,631)	Surplus for the year on the HRA Services	(2,898)
8,380	Adjustments between accounting basis and funding basis under statute	3,146
1,749	Decrease/(Increase) in year on the HRA	248
(27,154)	**Balance on the HRA at the end of the year**	**(26,906)**

5.3 Explanatory Notes to the Housing Revenue Account

43 Housing Stock

The Authority was responsible for managing 14,556 dwellings at 31 March 2020 compared with 14,656 at 31 March 2019. The net reduction of 100 properties is made up of 120 properties sold, and the addition of 20 new build properties.

The number of empty properties included in the above figures as at 31 March 2020 stands at 161 compared with 135 at 31 March 2019.

The stock is made up as follows:

1 April 2019		31 March 2020
	Low Rise Flats	
1,543	- 1 Bed	1,546
1,027	- 2 Bed	1,030
112	- 3+ Bed	111
	Medium Rise Flats	
561	- 1 Bed	561
1,146	- 2 Bed	1,139
61	- 3+ Bed	61
	Houses and Bungalows	
1,566	- 1 Bed	1,566
3,000	- 2 Bed	2,971
5,298	- 3 Bed	5,234
342	- 4+ Bed	337
14,656	**Total**	**14,556**

44 Balance Sheet Valuation

This note identifies the total net balance sheet value of land, houses and other property within the HRA (valued in accordance with government guidelines), and also analyses the movement in the balance sheet value during the year.

1 April 2019 £000s		31 March 2020 £000s
654,408	Houses	652,638
1,667	Land & Buildings	2,150
4,814	Vehicles, Plant & Equipment	4,879
157	Surplus Assets	154
9	Infrastructure	9
2	Intangibles	2
2,098	Assets Under Construction	561
663,155		**660,393**

45 Vacant Possession

The vacant possession value of dwellings within the HRA (valued in accordance with government guidance) was as follows:

1 April 2019 £ms		31 March 2020 £ms
1,321	Vacant Possession Value of HRA Dwellings	1,317

In accordance with government guidance, council house valuations have been reduced by a regional adjustment factor in recognition of their status as social housing. This adjustment factor is currently 44% in 2019/20 (44% 2018/19).

As a consequence, the Authority recognises council dwellings at a value of £579.664m on the Balance Sheet. The value of these properties if vacant would be £1,317.420m, therefore recognising an economic cost to the government of providing council housing at less than open market rents of £737.755m.

46 Rent Arrears and Bad Debt Allowance

Overall rent arrears have increased by £0.924m during 2019/20, from £4.376m at 31 March 2019 to £5.300m at 31 March 2020. These figures include rent, service charge and water rate arrears.

	£000s	£000s
Opening Rent Arrears at 1 April 2019 - consisting of:		
Current Tenant Arrears at 1 April 2019	2,650	
Former Tenant Arrears at 1 April 2019	1,726	4,376
Closing Rent Arrears at 31 March 2020 - consisting of:		5,300
Current Tenant Arrears at 31 March 2020	3,162	
Former Tenant Arrears at 31 March 2020	2,138	

The provision for bad debt required at 31 March 2020 is £4.286m compared with £3.451m at 31 March 2019, an increase of £0.835m. Bad debts of £0.185m were written off during the year, and a contribution of £1.020m was made:

2018/19 £000s		2019/20 £000s
2,845	Opening Provision for Bad Debt at 1 April	3,451
(298)	Bad debts written off during year	(185)
904	Additional contributions to bad debt provision during year	1,020
3,451	**Provision for Bad Debts at 31 March**	**4,286**

47 Major Repairs Reserve

Housing self-financing regulations require that a true charge for depreciation is made to resource capital spend, albeit for the first 5 years this was based on an estimate of the MRA calculated under subsidy as a proxy. 2017/18 represented the first year when the proxy can no longer be applied, and a "true" depreciation charge has been calculated and transferred to the MRR. The main credit to the reserve is an amount equivalent to the total depreciation charges for all HRA assets. Statute allows any difference between the depreciation credit on the reserve and a specified amount deemed necessary for carrying out major repairs for the year to be transferred back to the HRA. Authorities are able to charge capital expenditure directly to the reserve and can also use it to make voluntary set aside payments to repay debt.

The movement on the HRA Major Repairs Reserve (MRR) during the year was as follows:

2018/19 £000s		2019/20 £000s
(2,231)	Balance as at 1 April	(2,231)
(12,489)	Depreciation transferred into MRR	(12,401)
12,489	Financing of HRA capital expenditure: Houses	10,800
(2,231)	**Balance as at 31 March**	**(3,832)**

48 Housing Capital Expenditure and Financing

Capital expenditure of £23.169m was incurred in the HRA during 2019/20

2018/19 £000s		2019/20 £000s
27,651	Houses	21,669
0	Revenue Expenditure Funded by Capital under Statute	1,500
27,651		**23,169**

This was financed as follows:

2018/19 £000s		2019/20 £000s
12,489	Major Repairs Reserve	10,800
10,934	Revenue Contribution	10,238
806	Usable Capital Receipts – RTB Retained	357
931	Usable Capital Receipts - other	0
2,491	Use of Reserves	274
0	Grants	1,500
27,651		**23,169**

Total Gross Capital Receipts:

2018/19 £000s		2019/20 £000s
6,533	Houses	5,670
353	Land	790
6,886		**6,460**

49 Depreciation for HRA Assets

The charges for depreciation within the HRA for 2019/20 were as follows:

2018/19 £000s		2019/20 £000s
14,192	Houses	13,693
424	Vehicles, Plant & Equipment	857
39	Land & Buildings	44
0	Other	3
14,655		**14,597**

50 Pension Costs

In accordance with IAS19 Retirement Benefits, the Authority is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. Note 9 provides further details on Pension Costs.

The amounts charged to the HRA for 2019/20 in accordance with IAS19 were as follows:

2018/19 £000s		2019/20 £000s
586	Allocated to Services	2,660
447	Interest on Net Defined Benefit Liability	1,329
(1,033)	Movement on Pension Reserve	(3,989)

51 Capital Charges

The total value of the capital charges within the Income & Expenditure Account are as follows:

2018/19 £000s		2019/20 £000s
14,655	Depreciation	14,597
4,692	Downwards Revaluations	2,452
8,564	Impairments	7,401
(7,007)	Revaluation Increases	(5,277)
0	Revenue Expenditure funded from Capital under Statute	1,500
20,904		**20,673**

52 Revenue Expenditure funded from Capital under Statute

The amount of revenue expenditure funded from capital under statute in 2019/20 is £1.500m (£nil 2018/19).

53 Interest

From 2012/13 under the requirements of the new self-financing regime for HRA, the Authority's long-term loans have been individually split between the General Fund and the HRA. The HRA is therefore charged with the actual interest costs of its long-term borrowing, plus the costs of any short-term borrowing which the HRA may undertake. The method of apportioning the HRA's share of the total interest costs incurred on its share of the debt portfolio complies with general accounting practice, and thus the amount charged to the HRA Income & Expenditure Account represents the statutory charge, totalling £9.287m for 2019/20 (£9.635m 2018/19). This figure is included in interest and other charges in the HRA Income & Expenditure Statement.

54 Capital Charges (Item 8 Debit and Credit)

The cost of capital asset charge to the HRA is prescribed via the Item 8 debit and credit calculations. Depreciation and impairment of property, plant and equipment (details shown in Note 19 of the main accounts) together with debt management expenses (£0.023m in 2019/20 and £0.016m in 2018/19) are included in the Net Cost of Services to reflect the true cost of the use of assets.

Interest payable and similar charges (£14.753m in 2019/20 and £15.185m in 2018/19) are charged after the Net Cost of Services.

5.4 Collection Fund Statement for year ended 31 March 2020

The Collection Fund is a statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and Central Government of Council Tax and Business Rates.

2018/19 £000s		Note	2019/20 £000s Business Rates	2019/20 £000s Council Tax	2019/20 £000s Total
	Income				
(103,864)	Council Tax	55	0	(110,501)	(110,501)
2	Council Tax Benefits		0	0	0
(57,444)	Business Rates Receivable	56	(59,226)	0	(59,226)
	Distribution of Collection Fund Deficit:				
(17)	Central Government		(246)	0	(246)
(17)	North Tyneside Council		(241)	0	(241)
0	Police and Crime Commissioner for Northumbria		0	0	0
0	Tyne & Wear Fire & Rescue Authority		(5)	0	(5)
(161,340)	**Total Income**		(59,718)	(110,501)	(170,219)
	Expenditure				
	Precepts, Demands & Shares:	57			
28,410	Central Government		14,467	0	14,467
117,743	North Tyneside Council Demand		42,823	94,364	137,187
6,515	Police and Crime Commissioner for Northumbria		0	8,084	8,084
5,288	Tyne & Wear Fire & Rescue Authority		579	4,955	5,534
157,956			57,869	107,403	165,272
	Distribution of Collection Fund Surplus:	58			
379	North Tyneside Council		0	1,365	1,365
26	Police and Crime Commissioner for Northumbria		0	99	99
20	Tyne & Wear Fire & Rescue Authority		0	72	72
425			0	1,536	1,536

2018/19 £000s		Note	2019/20 £000s	£000s	£000s
	Charges to the Collection Fund:	59			
1,073	Increase/(decrease) in Provision for Appeals		558	0	558
1,381	Increase/(decrease) in Impairment Allowance		911	2,474	3,385
225	Cost of Collection		233	0	233
0	Disregarded Amounts		119	0	119
1,050	Transitional Protection Payment		299	0	299
3,729			2,120	2,474	4,594
162,110	**Total Expenditure**		59,989	111,413	171,402
770	Deficit/(Surplus) for the year		271	912	1,183
(1,301)	Deficit/(Surplus) as at 1 April		1,739	(2,270)	(531)
(531)	Deficit/(Surplus) as at 31 March	60	2,010	(1,358)	652

5.5 Explanatory Notes to the Collection Fund

General

This statement represents the transactions of the Collection Fund, which is a statutory fund separate from the General Fund of the Authority. The Collection Fund accounts independently for income relating to Council Tax and Business Rates on behalf of those bodies (including the Authority's own General Fund) for whom the income has been raised. The costs of administering collection are accounted for in the General Fund. Collection Fund balances are consolidated into the Authority's Consolidated Balance Sheet.

55 Council Tax

Under the Local Government Finance Act 1992, Council Tax replaced Community Charge as the local tax directly supporting local authority expenditure and was introduced on 1 April 1993.

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into eight valuation bands estimating 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 Authority, the Police and Crime Commissioner for Northumbria and the Tyne & Wear Fire & Rescue Authority 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 adjusted for discounts: (60,179 2019/20) (59,048 2018/19).

This basic amount of Council Tax for Band D property (£1,784.71 2019/20) (£1,712.80 2018/19) is multiplied by the proportion specified for the particular band to give an individual amount due.

The table below shows the Band D equivalent and Council Tax base for 2019/20.

	Band D Equivalents	Collection Rate	Council Tax Base
Tax Base Calculation	61,045	98.50%	60,129
Add Payments in Lieu			50
2019/20 Council Tax Base			60,179

Council Tax Base Calculation

	BAND A	BAND A	BAND B	BAND C	BAND D	BAND E	BAND F	BAND G	BAND H	TOTAL
	Entitled To Disabled Relief Reduction	Value Range up to £40,000 (See Note 1)	Value Range £40,001 to £52,000	Value Range £52,001 to £68,000	Value Range £68,001 to £88,000	Value Range £88,001 to £120,000	Value Range £120,001 to £160,000	Value Range £160,001 to £320,000	Value Range Over £320,000	
Properties as per List 30/11/18	0	50,263	15,603	19,243	7,764	3,879	1,269	353	38	98,412
Demolished Dwellings	0	(14)	(1)	0	0	0	0	0	0	(15)
Assumed Growth on New Build Properties	0	167	79	99	38	59	19	1	0	462
Disabled Relief	164	(88)	43	(64)	(30)	(12)	(4)	12	(21)	0
Exempt Dwellings or 100% discount.	0	(931)	(198)	(298)	(84)	(34)	(15)	(5)	(3)	(1,568)
Impact of Council Tax Support Scheme	(54)	(10,462)	(1,193)	(679)	(126)	(34)	(6)	(1)	0	(12,555)
	110	38,935	14,333	18,301	7,562	3,858	1,263	360	14	84,736
Less: Discounts at 25%	(14)	(6,196)	(1,466)	(1,295)	(391)	(149)	(51)	(23)	(2)	(9,587)
	96	32,739	12,867	17,006	7,171	3,709	1,212	337	12	75,149
Proportion of Band D Equivalent	5/9	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D Equivalents	53	21,826	10,007	15,117	7,171	4,533	1,751	561	24	61,045
Total Number of 25% Discounts	52	24,753	5,849	5,156	1,557	585	191	51	2	38,196
Total Number of 50% Discounts	2	16	8	12	5	5	6	21	3	78
Total Number of Second Home Properties	0	109	66	61	33	5	5	1	0	280

56 Business Rates

The Non-Domestic Rates (NDR) multipliers (the rate in the pound) are set annually by Central Government. For 2019/20, the standard rate multiplier was set at 50.4 pence in the pound and the small business multiplier was set at 49.1 pence in the pound.

From 1 April 2013 there has been a fundamental change to the system of Local Government Finance with the introduction of the Business Rates Retention Scheme. This system allows Authorities to retain a proportion of Business Rates revenues, as well as growth generated in their area. In the case of North Tyneside Council, the retained share (local share) of business rates income is 74%. Of the remainder, 25% is distributed to Central Government and 1% to the Tyne and Wear Fire and Rescue Authority. These percentages apply to 2019/20 as North Tyneside Council was part of a 75% pool along with Newcastle City Council and Northumberland County Council.

At the outset of the Business Rates Retention Scheme the Government undertook calculations to ensure that councils with greater needs than their business rates income would receive a ‘top up’ payment and councils with more business rates than their current spending will make a ‘tariff’ payment to Central Government. In the case of North Tyneside Council, the ‘top up’ payment for 2019/20 is £17.419m (2018/19 £19.684m). In addition, the Business Rates Retention system offers an element of protection through ‘Safety Net’ payments. North Tyneside Council would be entitled to a safety net payment if our business rates income in any year fell below 92.5% of its baseline amount.

The Authority’s non-domestic rateable value at 31 March 2020 was £149,687,000 (£150,624,535 at 31 March 2019).

57 Precepts, Demands and Shares

In relation to the changes introduced as part of the Business Rates Retention Scheme and described previously, the amount estimated before the start of the 2019/20 financial year for business rates are set out here. Of these totals, the North Tyneside Council share was 74%, the Government share was 25% and the amount in respect of the Tyne & Wear Fire and Rescue Authority was 1%.

In relation to Council Tax, the following authorities made significant demands and precepts on the Collection Fund:

2018/19 £000s		2019/20 £000s
89,902	North Tyneside Council Demand	94,364
6,515	Police and Crime Commissioner for Northumbria Precept	8,084
4,720	Tyne & Wear Fire & Rescue Authority Precept	4,955
101,137		**107,403**

58 Distribution of Collection Fund Surplus

Under Collection Fund legislation, North Tyneside Council has a statutory requirement to produce an estimated surplus or deficit for the following financial year. For 2019/20, the estimated surpluses were as follows:

2018/19 £000s		2019/20 £000s
379	North Tyneside Council	1,365
26	Police and Crime Commissioner for Northumbria Precept	99
20	Tyne & Wear Fire & Rescue Authority Precept	72
425		**1,536**

59 Charges to the Collection Fund

As part of the charges to the Collection Fund, North Tyneside Council is required to show amounts written off as uncollectable, which for 2019/20 are £0.558m (£0.287m 2018/19) for Council Tax and £0.494m for NDR (£0.322m 2018/19).

In addition, bad debt provisions are re-calculated on an annual basis, and for 2019/20 the Council Tax bad debt provision has been increased by £1.889m (£0.973m 2018/19) and the NDR bad debt provision increased by £0.417m (decrease of £0.201m 2018/19).

As shown in the statements, the total charge to the Collection Fund relating to Council Tax is £2.474m and the total charge relating to Business Rates is £0.911m.
The other significant item here is the provision for the NDR appeals as part of the Business Rates System £3.357m in 2019/20 (£1.950m 2018/19).

60 Collection Fund Surplus

The allocation of the Business Rates Collection Fund Surplus and the Council Tax Collection Fund Surplus are as follows:

	Business Rates (Surplus)/ Deficit £000s	Council Tax (Surplus)/ Deficit £000s
North Tyneside Council	1,176	(1,195)
Central Government	814	0
Police and Crime Commissioner for Northumbria Precept	0	(101)
Tyne & Wear Fire & Rescue Authority Precept	20	(62)
	2,010	**(1,358)**

6.0 Glossary of Terms

A

Accounting period: the period of time covered by the accounts, normally twelve months commencing on 1 April. The end of the accounting period i.e. 31 March is the balance sheet date.

Accounting policies: are the specific principles, bases, conventions, rules and practices applied in preparing and presenting these accounts.

Accruals basis: the method of including amounts in accounts to cover income or expenditure attributable to an accounting period but for which payment has not been received or made by the end of the accounting period. This is based on the concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Actuarial Gains and Losses: for a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- events have not coincided with the actuarial assumptions made for the last valuation
  or;
- the actuarial assumptions have changed.

Amortised: reducing the value of a balance in an accounting period. The reduction in value is transferred from the balance sheet to the Comprehensive Income and Expenditure Statement.

Amortised Cost: is the amount at which an asset or liability is measured (usually at cost) plus or minus accumulated interest.

Appropriations: transferring of an amount between specific reserves in the Comprehensive Income and Expenditure Statement.

Asset: something of value which is measurable in monetary terms.

Assets Held for Sale: these are assets previously used in the provision of services by the Council which are now available for immediate sale. The assets are being actively marketed and a sale is probable.

Authorised Limit: this is the limit beyond which borrowing is prohibited.

Authority: this is the corporate body of North Tyneside Council.

Available for Sale financial assets: financial instruments that either do not have fixed or determinable payments or whose prices are quoted on an active market.

B

Bad (and doubtful) debts: debts which may be uneconomic to collect or unenforceable in law.

Balances: the reserves of the Authority, both revenue and capital, which represent the accumulated surplus of income over expenditure on any of the funds.

Balance Sheet: a statement of the recorded assets, liabilities and other balances at the end of an accounting period.

Billing authority: a local authority empowered to collect Non - Domestic Rates and Council Tax i.e. metropolitan authorities, unitary authorities, London Boroughs, district authorities and the City of London. North Tyneside Council is a billing authority.

Business Rates (also known as Non-Domestic Rates (NDR)): a tax levied on business properties and is a means by which local businesses or organisations contribute to the cost of local authority services. The levy on businesses being based on a notional rate in the pound set by the government multiplied by the rateable value of the premises occupied. This multiplier is set annually by central government and comprises of a standard rates multiplier and a small business multiplier. The Authority can now keep half of this revenue to invest in local services.

Budget: a statement of the Authority's expected level of service expressed as an amount of spending over a set period, usually one year.

C

Capital Adjustment Account: provides a balancing mechanism between the different rates at which assets are depreciated under The Code and are financed through the capital controls systems.

Capital Charges: charges to services for the use of assets. They comprise depreciation, based on the current value of the assets used in the provision of services.

Capital expenditure: expenditure on the acquisition or enhancement of non-current assets. Capital expenditure can be incurred in some instances (where no asset is created) if Secretary of State permission is granted (e.g. equal pay, redundancy costs or where grants are made to other organisations for capital projects).

Capital Financing Requirement: the capital financing requirement is one of the indicators that must be produced as part of the CIPFA prudential code. This measures the Authority's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and the next two financial years.

Capital receipts: the proceeds from the sale of a fixed asset, or the repayment of some grants or loans made by the Authority.

Capitalised: transferred from revenue to capital.

Carrying Amount: the Balance Sheet value recorded of either an asset or a liability.

Cash and cash equivalents: this comprises cash in hand, cash overdrawn and short term investments which are readily convertible into known amounts of cash.

Cashflow: movement in cash and cash equivalents by the Authority in the accounting period.

CIPFA: The Chartered Institute of Public Finance and Accountancy.

CIPFA/LASAAC Code of Practice on Local Authority Accounting (The Code): the code of practice applicable to preparing the accounts.

Collection Fund: this account reflects the statutory requirement contained in section 89 of the Local Government

Finance Act 1988 (as amended by the Local Government Finance Act 1992) for billing authorities to establish and maintain a separate fund for the collection and distribution of amounts due in respect of council tax and non-domestic rates (NDR).

Community assets: assets that the Authority intends to hold in perpetuity have no determinable finite useful life and in addition may have restrictions on their disposal. Examples of community assets are playing fields and parks.

Component: is a significant part of an asset (such as a roof or major item of plant or equipment), which has to be separately identified for the purposes of accounting and asset management.

Comprehensive Income & Expenditure Statement: the account, that sets out the Authority's income and expenditure for the year for non-capital spending. It is sometimes referred to as the Revenue Account.

Consistency: the concept that the accounting treatment of like items within an accounting period and from one period to the next should be the same.

Consolidated: added together with adjustments to avoid double counting of income, expenditure, or to avoid exaggeration, e.g. debtors, creditors as a result of trading between services within the Authority which are reported on as a whole in the section on consolidated financial accounts.

Consumer Price Index (CPI): the index has been designed as a macro-economic measure of consumer price inflation. The official measure is calculated each month by taking a sample of goods and services that a typical household might buy including food, heating, household goods and travel costs.

Contingent asset: a contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control.

Contingent liabilities: arises where an event has taken place that gives the Authority 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 Authority.

Contingencies: sums set aside as a provision for liabilities which may arise in the future, but which cannot be determined in advance.

Council (or Full Council): the formal meeting of all Members of North Tyneside Council.

Council Tax: the main source of local taxation for local authorities. It is a banded property tax (using 1 April 1991 property values) which is levied on households within its area by the billing authority and is set annually for the properties in its area. Council Tax income is paid into the billing authority's Collection Fund for distribution to precepting authorities and for use by the billing authority's own General Fund.

Creditors: amounts owed by the Authority for work done, goods received, or services rendered to the Authority during the accounting period, but for which payment has not been made by the Balance Sheet date.

Current assets: which will be consumed or cease to have value within the next accounting period, e.g. inventories and debtors.

Current liabilities: amounts that the Authority owes to other bodies and due for payment within 12 months.

Current Service Cost (Pensions): the increase in the present value of a defined benefit scheme's liabilities expected to rise from employee service in the current period.

Curtailment: for a defined benefit pension scheme this is an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service, examples being termination of employees service through redundancy or amendment of the terms affecting future benefits.

D

Debtors: amounts due to the Authority which relate to the accounting period and have not been received by the Balance Sheet date.

Deferred Credits including deferred capital receipts: amounts derived from the asset sales which will be received in instalments over a period of a year (e.g. mortgages on the sale of Council houses).

Deferred Liabilities: these are liabilities which are payable beyond the next year at some point in the future or paid off by an annual sum over a period of time, e.g. deferred purchase arrangements.

Defined Benefit Scheme: a defined contribution scheme is a pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or 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 the employees benefits relating to employee service in the current or prior periods. A defined benefit scheme is a pension or retirement benefit scheme other than a defined contribution scheme.

Depreciation: the reduction in value of an asset due to age, wear and tear, deterioration or obsolescence.

Derecognition: financial assets and liabilities will need to be removed from the Balance Sheet once performance under the contract is complete or the contract is terminated.

E

Earmarked reserves: these reserves represent the monies set aside that can only be used for a specific usage or purpose (see Reserves definition for more information).

Emoluments: all sums paid to or receivable by an employee and sums due by way of expenses or allowances (as far as those sums are chargeable to UK income tax) and the monetary value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

Enterprise Zones: specific areas where a combination of financial incentives and reduced planning restrictions apply.

Equity instrument: a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Estimation Techniques: methods adopted by the Authority to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves.

Events after the Balance Sheet Date: 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 ones that are material in terms of the Authority's overall expenditure for example impairments and changes in accounting regulations.

Expenditure: costs incurred by the Authority for goods received, services rendered or other value consumables during the accounting period, irrespective of whether or not any movement of cash has taken place.

External Audit: the independent examination of the activities and accounts of Local Authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Authority has made proper arrangements to secure value for money in its use of resources.

Extraordinary items: these are very rare. They are material items with a high degree of abnormality that arise outside the normal activities of the Authority and are not expected to recur.

F

Fair Value: 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 to sell the asset or transfer the liability takes place either:

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

Finance Lease: a lease that transfers substantially all the risk and rewards of ownership of a fixed asset to the body leasing the asset (see Leasing definition for more information).

Financial Asset: a right to future economic benefits controlled by the Authority that is represented by: cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity.

Financial Instruments: contracts that give rise to a financial asset of one entity and a financial liability of another entity.

Financial Liability: an obligation to transfer economic benefits controlled by the Authority that is represented by: a contractual obligation to deliver cash (or another financial asset) to another entity, or a contractual obligation to exchange financial assets/liabilities with another entity.

G

General Fund: the main revenue account of the Authority, which brings together all income and expenditure other than recorded in the Housing Revenue Account and the Collection Fund.

General Reserves and Balances: monies held by the Council to deal with unforeseen events that might arise. The Council must maintain a prudent level of such balances.

Government grants: grants made by the Government towards either revenue or capital expenditure to support the cost of the provision of local authority services. These grants may be specifically towards the cost of particular schemes or to support the general revenue spending of the Authority.

H

Heritage Assets these are assets, previously classified as community assets, which are intended to be preserved in trust for future generations because of their cultural, environmental of historical associations.

Historical cost: the actual cost of assets, goods or services, at the time of their acquisition.

Housing Benefits: a system of financial assistance to individuals towards certain housing costs administered by local authorities and subsidised by central government.

Housing Revenue Account: a separate account that includes all income and expenditure arising from the provision of Council housing by the Authority.

Impairment: a reduction in the value of a fixed asset, measured by specific means, below its stated carrying amount in the Balance Sheet.

Income: amounts which the Authority receives or expects to receive from any source, including rents, fees, charges, sales and grants.

Infrastructure Assets: assets such as highways, bridges, street lights and footpaths.

Intangible Asset: identifiable non-monetary asset without physical substance e.g. computer licences.

Interest Cost (pensions): for a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

International Accounting Standards (IAS): international accounting standards issued by the International Accounting Standards Board. They are authoritative statements of how particular types of transactions and other events should be reflected in financial statements.

Inventories: raw materials and consumable items which the Authority has procured to use on a continuing basis and have not been used by the end of the accounting period.

Investment Property: interests in land and/or buildings in respect of which construction work and development have been completed and which are held for their investment potential rather than for operational purposes, any rental income being negotiated at arm's length.

Investments: items such as company shares, other securities and money deposited with financial institutions (other than bank current accounts).

Item 8 Debit and Credit Calculation: this refers to Item 8 of Part I and Item 8 of Part II of Schedule 4 to, the Local Government and Housing Act 1989 in respect of provisions for the treatment of impairment and depreciation in housing revenue accounts of local authorities in England from 1 April 2017.

L

Leasing: a method of acquiring the use of an asset by paying a rental for a specified period of time, rather than purchasing it outright. The two methods are:

- *Operating Leases* – may generally be described as those which do not provide for the property in the asset to transfer to the Authority, only the rental will be taken into account by the lessee; or

- *Finance Leases* – are leases that transfer substantially all of the risks and rewards of ownership of the asset to the lessee. The asset is recorded on the lessee's balance sheet.

Lender Option Borrower Option Loans (LOBO): borrowing whereby the lender can opt to increase the interest rate payable at the end of the initial period. If the lender opts to increase the interest rate payable, then the borrower can either agree to this increase and continue to repay the loan up to the maturity date or can reject the new terms and repay the loan in full (without penalty).

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 Comprehensive Income and Expenditure Statement. The bodies that charge a levy on the Authority are the North East Combined Authority (transport levy), the Environment Agency and the Tyne Port Health Authority and Northumberland Inshore Fisheries and Conservation Authority.

Liabilities: amounts due to individuals or organisations, which will have to be paid at some time in the future.

Long Term Assets: assets which have value to the Authority for more than one year, e.g. land, buildings, equipment (also known as non-current assets).

M

Material: the concept that any omission from or inaccuracy in the statements of account should not be large enough to affect the understanding of those statements by a reader.

Minimum Revenue Provision (MRP): is the minimum amount which must be charged to an authority's revenue account each year and set aside as a provision for credit liabilities (repayment of debt), as required by the Local Government Act 1989.

N

National Multiplier: the figure used to calculate a non-domestic rates bill from the rateable value.

Non-Domestic Rates (NDR) (also known as Business Rates): a tax levied on business properties and is a means by which local businesses or organisations contribute to the cost of local authority services. The levy on businesses being based on a notional rate in the pound set by the government multiplied by the rateable value of the premises occupied. This multiplier is set annually by central government and comprises of a standard rates multiplier and a small business multiplier. The Authority can now keep half of this revenue to invest in local services.

Net Book Value: the amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided by depreciation.

Net Realisable Value: the open market value of the asset in its existing use (or open market value in the case of investment Property), less the expenses to be incurred in realising the asset.

Non Current Asset: assets which have value to the Authority for more than one year e.g. land, buildings, equipment (also known as Long Term Assets).

O

Operational Boundary: this reflects the maximum anticipated level of external debt consistent with budgets and forecast cash flows.

Operating Lease: a type of lease where the ownership of the asset remains with the lessor, and rental payments are recorded against services in the Comprehensive Income & Expenditure Statement (see Leasing definition for more information).

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P

Pooled Funds: established to support partnership working. A pooled fund will receive funds from a variety of sources and will be administrated by the host partner.

Precept: the charge determined by precepting authorities on billing authorities. It requires the billing authority to collect income from Council taxpayers on their behalf. In the case of North Tyneside Council, the precepting authorities are the Police and Crime Commissioner for Northumbria and the Tyne and Wear Fire and Rescue Authority.

Prior Year Adjustments: material adjustments to the accounts of earlier years arising from changes in accounting policies or from the correction of prior year errors. A prior year error may include the effect of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of fact, and fraud. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Provisions: amounts set aside in the accounts for liabilities or losses which are certain or very likely to occur but where there is uncertainty as to the amounts involved or the dates on which they will arise.

Private Finance Initiative (PFI): public authority/private sector partnerships designed to procure new major capital investment resources for local authorities.

Property, Plant and Equipment (PPE): Property, Plant and Equipment covers all assets with physical substance (tangible assets) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

Prudential Code: The current system on financial controls for capital financing introduced on 1 April 2004 that local authorities are required to operate by.

Prudence: this accounting concept requires that revenue is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in the light of the information available.

Public Works Loan Board (PWLB): a central Government agency which lends money to local authorities at lower rates than those generally available from the private sector. Local authorities are able to borrow for their requirements to finance capital expenditure from this source.

R

Related Parties: individuals, or bodies, who have the potential to influence or control the Council or to be influenced or controlled by the Council

Remeasurement of the net defined benefit liability: comprises of

a) actuarial gains and losses,

b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset), and

c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

Remuneration: defined as sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

Replacement Cost: cost of replacement of the asset at the balance sheet date.

Reserves: amounts set aside in the accounts to meet expenditure which the Authority may decide to incur in future period, but not allocated to specific liabilities which are certain or very likely to occur. Earmarked reserves are allocated to a specific purpose or area of spending. Unallocated reserves are often described as balances, and usually arise as unplanned surpluses of income over expenditure.

Retail Price Index (RPI): measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person.

Revaluation Reserve: records unrealised revaluation gains arising (since 1 April 2007) from holding property, plant & equipment. This reserve is matched by fixed assets within the Balance sheet; therefore, they are not resources available to the Authority.

Revenue Contributions: method of financing capital expenditure directly from revenue.

Revenue Expenditure Funded from Capital under Statute: expenditure classified as capital for funding purposes but does not result in the creation of an asset (previously called deferred charges).

Revenue Support Grant: a central Government grant paid to each local authority to help to finance its general expenditure, as opposed to specific grants.

Ring-fenced: this refers to the statutory requirement that certain accounts such as the Collection Fund and Housing Revenue Account must be maintained separately from the General Fund.

S

Section 151 Officer: the Council officer designated under Section 151 of the Local Government Act 1972 to take overall responsibility for the financial administration of the Council.

Service Concession: an arrangement whereby the Authority contracts with a private operator to develop (or upgrade), operate and maintain infrastructure assets (in this case Schools and Street Lighting). The Authority controls or regulates what services the operator must provide using the assets, to whom, and at what price, and also controls any significant residual interest in the assets at the end of the contract.

Strain on the Fund: An early payment of retirement benefits for members aged 55 or over and under 65 generates a 'Strain on the Fund' cost. This results in the Authority reimbursing the Tyne & Wear Pension Fund for the loss of employer and employee contributions and investment income which results from the employee retiring early.

T

Treasury Management: this is the process by which the Authority controls its cash flow and its borrowing and lending activities.

Treasury Management Strategy (TMS): a strategy prepared with regard to legislative and CIPFA requirements setting out the framework for treasury management activity for the Council.

U

Unuseable Reserves: reserves earmarked for specific accounting treatments which are not available to fund general expenditure (see Reserves definition for more information).

Useable Reserves: reserves that can be applied to fund expenditure or reduce local taxation (see Reserves definition for more information).

ITEM 8
Title: Annual Governance Statement Update

North Tyneside Council
Report to Audit Committee
Date: 29 July 2020

Portfolios:	**Elected Mayor**	**Cabinet Member:**	**Norma Redfearn**
	Finance and Resources		**Councillor Ray Glindon**

Report from:	**Resources**	
Responsible Officer:	**Janice Gillespie, Head of Resources**	**Tel: 0191 643 5701**
Wards affected:	**All**	

PART 1

1.1 Executive Summary:

The Annual Governance Statement (AGS) explains how the Authority delivers good governance and reviews the effectiveness of these arrangements. It also meets the requirements of regulation 6(1) of the Accounts & Audit Regulations 2015 which require the Authority to publish an AGS.

As previously communicated to Audit Committee, due to the impact of the Covid-19 pandemic, national changes were made to deadlines covered in legislation relating to the publication and external auditing of the Accounts. These changes resulted in the deadline for the Chief Finance Officer to “certify” the draft accounts changing to 31 August 2020 and therefore the approval of the accounts by Audit Committee, including the AGS, will not take place until November 2020.

As a result of these changes, this report is an update to the Audit Committee of the progress of the latest review of the action plan agreed as part of the 2018/19 AGS and will outline the proposed method for compiling the evidence for the 2019/20 AGS.

Three new risks have been included within this update, detailed in appendix 1, and these relate to the impact of Covid-19 Recovery, Finance and Resources and Workforce (including recruitment and retention). These items are being reviewed and monitored as the Annual Governance Statement is prepared alongside the Statement of Accounts.

1.2 Recommendation(s):

It is recommended that the:

(a) Audit Committee note the update of the latest review of the Authority’s action plan agreed as part of the 2018/19 AGS;

(b) Audit Committee note the progress made in compiling the evidence for the 2019/20 AGS; and,

(c) Audit Committee note the potential inclusion of three new risks, including the controls in place, to the 2019/20 AGS.

1.3 Forward plan:

This report is included within the annual workplan for the Audit Committee.

1.4 Authority plan and policy framework:

The AGS covers all the service responsibilities as identified within the Council Plan.

1.5 Information:

Regulation 6(1) of the Accounts and Audit Regulations 2015 requires audited bodies to conduct a review at least once a year of the effectiveness of its internal controls and produce an AGS.

Good governance is fundamental to the proper running of the Authority. It enables an Authority to pursue its vision effectively as well as underpinning that vision with control and management of risk. The arrangements in place must be proportionate to the risks and are acknowledged as being the responsibility of each authority in its area of operation.

The process of preparing the AGS should add value to the effectiveness of the corporate governance and internal control framework.

The AGS is an integral part of the Annual Financial Statement and is audited by external audit as part of the annual audit of the accounts. The external auditor considers whether the AGS reflects compliance with 'Delivering Good Governance in Local Government – A Framework' published by the Chartered Institute of Public Finance & Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) in April 2016. The external auditor reports on compliance with proper practices specified by CIPFA/SOLACE. In its Audit Completion Report 2018/19, the external auditor issued an unqualified opinion on all financial statements including the AGS.

At the meeting of the Audit Committee on 29 May 2019 it was noted that no significant governance issues had been identified and that the governance arrangements in place within the Council were considered adequate by the Senior Leadership Team (SLT).

Areas were highlighted within the 2018/19 AGS as requiring continuous monitoring to ensure that they do not become significant governance issues in the future. These are outlined in **Appendix A**:

Appendix A outlines the controls in place for each of these issues. It should be noted that none of these issues are felt to be giving rise to governance concerns.

2019/20 Approach

The 2019/20 AGS will be compiled in a similar way to that used in 2018/19. Meetings will be held with each Head of Service regarding the governance arrangements in place within their service. This information will be collated into an overall Assurance Statement and signed off by the Chief Executive.

The Assurance Statement forms one part of the process undertaken to complete the AGS. **Appendix B** sets out the overall process, and evidence that will be reviewed, to ensure that there are appropriate governance arrangements in place within the Authority.

Due to the relaxation in deadlines as a result of the Covid-19 pandemic, the draft Statement of Accounts will be certified by the Chief Finance Officer on 31 August 2020 and the accounts, including the completed AGS, will be presented to Audit Committee for approval in November 2020.

1.6 Decision options:

The options available are:

1) To accept the recommendations made in section 1.2.1; or
2) To reject the recommendations made within this report.

Option 1 is the recommended option.

1.7 Reasons for recommended option:

The production of the Annual Governance Statement is a requirement of the Accounts and Audit Regulations 2015.

1.8 Appendices:

Appendix A – Review of 2018/19 AGS Action Plan
Appendix B – Process for Completing the 2019/20 AGS

1.9 Contact officers:

Janice Gillespie – Head of Resources – Tel: 0191 643 5701
David Dunford – Senior Business Partner – Tel: 0191 643 7027
Iain Henderson – Finance Business Partner – Tel: 0191 643 5722

1.10 Background information:

The following background papers and reports have been used in the compilation of this report and are available for inspection at the offices of the author:

(a) Annual Governance Statement 2018/19
(b) CIPFA/SOLACE ‘Delivering Good Governance in Local Government’ April 2016
(c) CIPFA/SOLACE ‘Delivering Good Governance in Local Government: Guidance Notes’ April 2016
(d) ‘The Role of the Chief Finance Officer’ (CIPFA)

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

There are no financial implications as a result of the recommendations within this report.

2.2 Legal

The Annual Governance Statement is produced annually in accordance with regulation 6(1)(a) of the Accounts and Audit Regulations 2015.

2.3 Consultation / community engagement

Consultation has taken place with members of the Senior Leadership Team.

2.4 Human rights

There are no Human Rights implications as a result of the recommendations in this report.

2.5 Equalities and diversity

There are no Equalities and Diversity implications as a result of the recommendations in this report.

2.6 Risk management

The annual review of the systems of internal control will cover all controls, including the arrangements in place for Risk Management within the Authority.

2.7 Crime and disorder

There are no crime and disorder implications as a result of the recommendations in this report.

2.8 Environment and sustainability

There are no environment and sustainability implications as a result of the recommendations in this report.

Appendix A

Review of 2018/19 AGS Action Plan – July 2020 Update

Potential Governance Issue	Factors Driving the Governance Issue	Update to Controls Identified in May 2019 Audit Committee Report
Housing Revenue Account (HRA) – there is a risk that the Authority will be unable to protect its housing asset and services to tenants as a result of reduced income to the HRA.	Government policy on Welfare Reform has resulted in a number of direct challenges to rent collection, for example the Spare Room Subsidy and the Benefit Cap. Further Welfare Reform changes, including the roll out of Universal Credit that commenced in May 2018. This is the final year of a four-year 1% p.a. rent reduction brought around by the Welfare Reform and Work Act 2016.	• Any impact from changes in Government legislation is reflected in the HRA plan and approved by Cabinet as part of the annual review of the HRA. • Revised 30-year Capital Investment Plan is in place. • The Authority has representation on the MHCLG (Ministry for Housing, Communities & Local Government) and the CIPFA HRA working groups. Specific issues can be raised through these forums and the Authority can also comment and influence changes on HRA regulations. • The Financial Inclusion Strategy sets out how the Authority and its partners will support its residents to better manage their finances and maximise their income. • Self-service/agile working, through the implementation of self service and agile working overall costs should be reduced. • The Government announced during 2018 that it will be removing restrictions on the HRA borrowing cap, and that authorities will purely operate under the same rules that apply to the General Fund in accordance with the Prudential Code i.e. affordability being the key issue. • The insourcing of the repairs & maintenance construction service brings with it, financial benefits creating greater financial flexibility to balance the HRA. • A watching brief will be kept on the implications of any further Government proposed changes as they arise, and appropriate representations will be made to Government.

Potential Governance Issue	**Factors Driving the Governance Issue**	**Update to Controls Identified in May 2019 Audit Committee Report**
Implementation of Universal Credit Full Service – there is a risk on resident's finances both in them receiving the payment and their ability to manage their finances on a monthly basis. Risks also exist around the HRA if rent arrears increase as a result.	The impact of the Universal Credit (UC) roll out over 2019/20. The full service was implemented on 2 May 2018 by Job Centres in North Tyneside. This brings families with children into scope. The potential impact on resident's finances and the delay in receiving initial payment is a concern, although Government have provided some additional support measures with 2 weeks additional Housing Benefit and promotion of advanced payments. Resident's ability to make and maintain claims online and their ability to manage finances on a monthly basis is also a challenge. The impact on the HRA, as claimants receive their Housing element of UC directly and have to make payment to the authority (currently Housing Benefit paid direct to Local Authority) is a challenge to maintain rent collection levels.	• Partnership working to support the claimants of UC with Community and Voluntary Sector and Job Centre Plus. • Referral mechanisms established to support residents with ICT Skills to claim and update UC claims as well as managing budgets. • Promotion of Direct Debit. Also use of alternative payment arrangements where appropriate to support vulnerable residents. • Expanding the UC Support Team to ensure that arrears balances are closely monitored and controlled. • Introduced Employability Officers x3 to support claimants back into employment. • Introduced analytical software to target support to the most vulnerable UC claimants. • An officer is in place to manage the electronic real-time notifications that are received from the Department for Work and Pensions in relation to new claims and payments.
Efficiency Savings Programme There is a risk that if the programme is not successfully implemented the Authority may be unable to deliver improved services and meet the increased demand on Council services within reducing	Reductions in central government funding combined with increasing demand levels for the Authority's services has required the Authority to develop new ways of working. The Authority is aiming to deliver high quality services with fewer resources at its disposal. Any required savings are therefore required to fit with the Efficiency Statement to ensure the council is still in a position to deliver the quality of services its	• Governance framework – there are monthly updates via Senior Leadership Team (SLT) and the Leadership Forum. In addition, as part of the Financial Management Function quarterly Budget & Performance Sessions are held with Cabinet Members. This ensures that there is visibility and accountability. • Regular updates are reported to Lead Member Briefings. This informs Cabinet Members of progress and of any issues. • The Efficiency Statement addresses the financial challenge whilst

Potential Governance Issue	**Factors Driving the Governance Issue**	**Update to Controls Identified in May 2019 Audit Committee Report**
resources.	residents expect.	enabling the Authority to deliver Our North Tyneside Plan priorities. A number of business cases have been put in place to support the delivery of the Efficiency Statement and associated reduction of costs.
There is a risk that budget monitoring does not fully align with the efficiency programme.	To enable the objectives of the Efficiency Statement to be met it is important that the current monitoring processes that are in place will enable robust financial and service challenges to continue throughout the year.	• A refreshed Joint Strategic Needs Assessment (JSNA) is in place which provides a new approach to needs assessment to provide an improved foundation for the Efficiency Statement. • The Risk Register highlights and reports key risks attached to the strategic aims of the Efficiency Savings Programme. The Efficiency Savings Programme Board receive this report enabling informed decisions to be made. • The Authority continues to use the governance structure in place for budget setting and budget monitoring to regularly review any potential impact of Covid-19 on the ability to deliver the Efficiency Savings Programme.
Impact of the development of the Integrated Care System (ICS) across North East and North Cumbria and the Integrated Care Partnerships ICPs) (which have replaced the former Sustainability and Transformation Plans) –there are concerns about the extent to which the Authority has been	The purpose of the ICS and ICPs in the NHS is to ensure that health and care services are based upon the needs of local populations in order to support the successful implementation of the NHS 5 Year Forward View (5YFV) and the NHS Long Term Plan. The ICS and ICPs are intended to bring together key partners across Clinical Commissioning Groups (CCGs), Foundation Trusts, local authorities and other health and care service providers to improve health outcomes and to better manage operational challenges in the NHS to achieve sustainability.	• Following previous controls identified, including the letter from North Tyneside Council to NHS England and monitoring by the Head of Health, Education, Care and Safeguarding and the Chair of the Health and Wellbeing Board, a Health Scrutiny Committee has been established jointly across local authorities. • The Chair of the Health and Wellbeing Board and senior council officers have received updates and a number of presentations from chief officers within the NHS on the progress of the ICS, ICP and the Long-Term Plan and the implications at the meetings of the North Tyneside Health and Wellbeing Board.

Potential Governance Issue	Factors Driving the Governance Issue	Update to Controls Identified in May 2019 Audit Committee Report
a true partner in its development. The concern centres on engagement and involvement of local authorities and understanding the financial implications of the plans upon the ability of the Authority to deliver services to residents, such as, adult social care, children's services and public health.	The ICS has identified a number of priority areas of work including prevention, optimising health services, digital transformation, workforce transformation and mental health.	• The Head of Health, Education, Safeguarding and Care and the Director of Public Health are involved in the ICS work streams relating to prevention, mental health and child health. • A watching brief will be kept on the implications of the Governments' Green Paper on Care and Support for Older People and the Green Paper on Prevention. Once they are published considerations will need to be made to any changes coming as a result.
Business Rates - There are a number of risks with new Government proposals to move to a 75% or 100% retention policy.	There are on-going discussions and moves by Central Government to implement 100% Business Rate Retention for Local Authorities. This initiative was delayed in the previous parliament with a one year settlement removing the 75% pilot and returning the Authority to 49% retention for 2020/2021. Increased retention would potentially give local authorities greater ability to plan for the long term, more financial independence and an increased incentive to generate growth as a greater % of business rates will be retained. However, a lack of business growth or the shutting of a business will have a negative impact on the Authority's revenues. The Authority will also have to bear an increased % of business rates appeals, this was previously	• The Authority, along with its North of Tyne partners, entered a 75% retention pool for 2019/20. This was to act as a trial for the impact a switch in national policy might have on North Tyneside, but it was announced in the recent Spending Round that the 75% pilots will not continue into 2020/21, meaning NTC will return to 49% retention. • A Task & Finish Group, Business Rates Retention, has been set-up to influence central government direction on the proposed Business Rates Retention system. This has involved the establishment by the Local Government Association (LGA) and MHCLG of an officer-level steering group and 3 working groups. The working groups meet regularly and cover service responsibilities, needs & redistribution, system design, accounting & accountability and business interests. • Presentations have been received from MHCLG both to the region and jointly to the Local Government Association. • The Authority considers and

Potential Governance Issue	**Factors Driving the Governance Issue**	**Update to Controls Identified in May 2019 Audit Committee Report**
	50%. The current business rates system has a safety net in place for those local authorities that see a reduction in business rate income by more than 7.5%. It is anticipated that this will stay in place, but this hasn't been confirmed. The Covid-19 pandemic has had a significant impact on the global economy and there is a risk that businesses will not survive. In addition, Covid-19 has seen businesses adapt to new ways of working with increased levels of home-working. There is a risk that demand for office space reduces. Both factors present a significant risk to the resources available to the Authority.	responds to consultations issued on the proposed changes to business rates. • Weekly monitoring of the Valuation Office appeals data is carried out to gain an understanding of the Authority's position. • MHCLG continue to consult on business rate retention as it links in with Governments Fair Funding Review and devolution of further responsibilities. Proposals to change risk on appeals, Central Government bearing cost, with top slice to each authority's funding. • Valuation Office Agency have introduced new appeals process from 1 April 2017 called check, challenge, appeal which introduces additional processes to reduce the number of appeals made. Large reduction in number of appeals has been seen in first year of scheme. The Authority has made prudent judgements on potential impact of appeals on the collection fund accounts and monitor this on a monthly basis. • Along with the new valuation list being due in 2021 it is now expected that there will be a full baseline reset of Business Rates Retention and possibly a more complex retention system. This will add to the uncertainty currently surrounding financial planning.
Information Governance – there is a risk in relation to information governance that unless there are robust policies and	Some information held by the Authority is extremely sensitive in nature which requires robust policies and systems to be in place to ensure that it is as secure as possible, and that staff are fully aware of the procedures that they need to follow when	• Compulsory e-learning in respect of information sharing and information governance awareness training. It is mandatory for all staff handling information to undertake e-learning. • Strategic Information Management Forum. This is an assurance group which consists of Heads of Service

Potential Governance Issue	**Factors Driving the Governance Issue**	**Update to Controls Identified in May 2019 Audit Committee Report**
systems in place and implemented there is a possibility that sensitive data may be lost. If the Authority fails to have robust policies in place there is a risk that the Data Protection Act could be breached leading to fines and compensation claims.	dealing with such information. From May 2018 the General Data Protection Regulation (GDPR) came into force. The GDPR sets out a number of new requirements for organisations. The new regulation places greater emphasis on accountability, for example informing residents in more detail about how the Authority will handle their data, shorter timescales for dealing with subject access requests and breaches, increased fines for non-compliance, data protection impact assessment (DPIA) must be carried out prior to commencing new processing activities, considering data privacy and protection at the start of a project (also known as Privacy by Design).	and Senior Managers. Their role is to help to ensure that the Authority's information governance, IT systems and processes are fit for purpose. The Group enables Senior Managers to ensure that consistency is applied to the approach to information governance and sign off of referrals to the Information Commissioner's Office. • Information Management Strategy, this sets out how the Authority will manage its information going forward. • Information governance standards for the sharing of information with partners. Data sharing was included in the contractual arrangements with both the Business and Technical Partners. An additional data sharing agreement has been produced for the business partner to reflect ICT services. It sets out procedures that staff need to follow in order to obtain access to information systems. A Data sharing Agreement is also in place for the Trading companies. • Strategic Information Governance Officer – providing a corporate approach working with day to day managers of the information governance processes and procedures, ensuring a training plan is in place and implemented. • The Authority has appointed a new Senior Information Risk Owner at SLT level, which will oversee Information Governance operations. • Work is continuing to embed data protection legislation across the Authority. Privacy Notices have been produced, the procedure for data protection requests has been reviewed and implemented and the Information Governance policies have been updated. Current data

Potential Governance Issue	**Factors Driving the Governance Issue**	**Update to Controls Identified in May 2019 Audit Committee Report**
		sharing and data processing agreements have been reviewed and updated and work continues on the Archive to reduce the number of documents being stored. • Implementation of ICT Tooling which will include SharePoint will introduce a Records Management System which will include robust document retention and disposal systems. • As part of the review of the ICT Strategy, a governance board has been established recognising the links between ICT and Information Governance. Its membership includes the SIRO, relevant Cabinet Members and heads of service. It will help ensure that ICT enables us to take a confident and robust approach to information governance and security.
Partnerships – There is a risk that partner organisations governance arrangements and service plans do not align with the Authority's.	The Authority needs to continue to manage and review governance arrangements that are in place in respect of all partnerships to ensure required services are continued to be delivered against agreed service plans whilst demonstrating value for money. In addition, the Authority needs to ensure that boundaries and responsibilities remain clear and are robustly managed, recognising that operations and staffing in both partner organisations and the Authority change over time.	• The Governance structure that is in place ensures that the governance to manage partnerships is in place, e.g. Strategic Partnering Boards, Operational Partnering Boards, Senior Client Groups and a Commercial Group. • The performance payment mechanism ensures that the correct payments are made in relation to the partners. • Alignment of the Efficiency Statement with ENGIE strategic plans will ensure all parties are aware of how the business partnership is working towards developing the Authority's priorities and ENGIE business plan. • ENGIE and Capita continue to work with the Authority to deliver the 'Our North Tyneside Plan' along with Efficiency Statement objectives. The aim is to ensure that partnership delivery plans are in line with policy objectives. This is reflected in their

Appendix A

Potential Governance Issue	Factors Driving the Governance Issue	Update to Controls Identified in May 2019 Audit Committee Report
		annual service plans. • The Capita Deed of Variation has now been agreed and implemented. • The Schedule 9 Benchmarking exercise for the Capita contract as completed in year and reported through OPB and SPB. Development and monitoring of the Annual Service Plan continues and performance against these plans are reported through OPB and SPB. • A Schedule 9 Benchmarking Best Value Review is scheduled for year 8 of the Engie contract (2020) and work started during 2019 to prepare for this review. A review of Good value is required to enable extension of the Contract to a 15-year term. • Overview & Scrutiny Committee have selected the Engie contract as one of the areas they wish to review. These started in 2019 and continue through 2020.
Exit from the European Union – there is a risk that the Authority may be placed at a disadvantage or miss out on opportunities afforded by the change, following the decision to leave the European Union (EU) in both financial and economic growth terms. There is an opportunity to work closely with other local authorities, NELEP and the North of Tyne	The decision to leave the EU has resulted in a number of uncertainties including whether Central Government will fill the gap left by European Funding on a like for like basis. There is also the potential impact on businesses within North Tyneside which will vary depending on their reliance on Europe as a market and their sensitivity to fluctuations in monetary value. The full extent of the impact will not be clear until the precise trade terms are known which will apply once the UK formally leaves the EU. Opportunities will also arise covering: An opportunity for partnership	• The potential impact from leaving the EU has been included in the Authority's Financial Strategy. This will help to ensure that potential areas of impact following EU exit will be highlighted and included (where relevant) in budget planning. • Announced at Conservative Party Conference that funding will be extended until Britain officially leaves the EU. If this funding is honoured, it will offer a degree of certainty until we leave the EU. • Further announcement from Government in July 2018 that they would underwrite EU funding even in a 'no deal' scenario for funds approved prior to 2020. This will enable the Authority to bid for an extension to the Business Factory start-up and business growth support until December 2021. • Funding has been made available

Potential Governance Issue	**Factors Driving the Governance Issue**	**Update to Controls Identified in May 2019 Audit Committee Report**
Combined Authority within the region to exploit new areas of growth and financial streams.	between businesses and the Authority to work together more effectively to stimulate and support economic growth opportunities; An opportunity for a comprehensive approach to establish the River Tyne as a hub for offshore and renewable energy investment; and There is an opportunity for local authorities to work more collaboratively with wider business partners through the Combined Authority and the North East Local Enterprise Partnership (NELEP).	from Central Government to help deal with any adverse impacts from Brexit. This will alleviate some of the financial and resource pressures the Authority may face when managing the impacts from Brexit. • Existing regeneration schemes are planned against known funding opportunities. This minimises the impact on schemes if funding opportunities are withdrawn. • Keep a watching brief, this will ensure that any changes whether to funding or legislation will be identified and acted upon. • The Authority is a member of various regional groups. This will help the Authority to keep up-to-date on progress and have the opportunity to exert influence via these groups, for example the Local Government Association. • Effective high-level engagement with key businesses. Appropriate high-level relationships will enable us to monitor emerging impact of Brexit on our key businesses. • Explore alternative funding opportunities. This will enable the Authority where possible to secure future funding that is not reliant on the EU. • The Authority has established the Brexit Working Group. The group will oversee the management of Brexit across the Authority. It takes into account information and guidance received from Central Government and regional groups. The group has identified and is managing risks attached to Brexit and it assesses the resilience of the Authority to ensure we are prepared to deal with the impact.
Devolution – There is a risk that	The North of Tyne authorities have established a North of Tyne	• The North of Tyne Combined Authority is now in existence, with its

Potential Governance Issue	**Factors Driving the Governance Issue**	**Update to Controls Identified in May 2019 Audit Committee Report**
the Authority may not be able to maximise the opportunities presented by securing a devolution deal for North of the Tyne (NOT).	Mayoral Combined Authority following a Devolution deal from Central Government. This required the previous arrangements with the North East Combined Authority (NECA) to change. The Authority will need to be mindful of any on-going governance issues the new Combined Authority may bring, specifically around their impact on North Tyneside Council.	first elected Mayor in office. • The Elected Mayor and Deputy Mayor are members of the North of Tyne Cabinet. • The North Tyneside Working Group, including Authority staff and elected members, continues to meet to ensure information is shared and all parties are involved to maximise the potential benefits for North Tyneside. Chief Officers within North Tyneside Council are currently occupying critical roles in the new Combined Authority.
New Risks Added Since May 2019		
Workforce (including Recruitment and Retention) & Succession Planning – There is a risk that our workforce planning may not meet the needs of the Authority especially with regards to recruitment, remuneration and retention within some of our services especially Social Care and Public Health, and succession planning more generally across all areas.	There is a risk that the Authority fails to align its workforce, in terms of skills and experience, in order to deliver the right priorities, leaving the Authority unable to deliver the Our North Tyneside Plan.	• Workforce planning will ensure that service areas have the tools to align the workforce requirement to the delivery of service. • Organisational Development Plans are in place and reviewed by SLT annually to ensure that the programmes we are running align themselves to the Authority's priorities. • Recruitment sign off for vacancies is made by the Head of Resources ensuring that there is a business need to undertake a recruitment exercise and that those vacancies are controlled. • Sign off and monitoring process for voluntary redundancy and enhanced redundancy requests are made by the Head of Resources to make sure that the right decisions are made and challenged appropriately, ensuring a consistent approach. • The apprenticeship strategy will support the expansion of entry routes into the organisation, particularly for young people and our hardest to

Potential Governance Issue	Factors Driving the Governance Issue	Update to Controls Identified in May 2019 Audit Committee Report
		reach group of residents.
Covid-19 Recovery – There is a risk that we may fail to manage long term recovery from the coronavirus (Covid-19) pandemic well, within the Authority and wider across the community and economy within North Tyneside.	This new risk has been raised due to the need to respond to and plan for the long-term recovery from the impact of Covid-19 based upon the Authority's planning assumptions as set out below. In line with the Government's Covid-19 Recovery Strategy: • The Authority must adapt to live with the virus in the community for the foreseeable future; • Any further easements to lockdown and the restart of businesses and services set by Government will be very gradual and on a phased basis; • The "test, track and trace" arrangements will slow the spread of the virus and the Authority will work with partners on local outbreak control measures; • Shielding for the most medically critically vulnerable will remain for some time and the Authority will need to retain its support arrangements for those people; • The Authority will see a changing nature of demand for some services such as Adult Social Care; • Social distancing and good respiratory hygiene will be key to manage the spread of infection and all workplaces, schools and other education facilities, retail settings and public spaces will need to be Covid-secure;	• Governance arrangements have been put in place to enable the coordinated management of the Covid-19 crisis ensuring prompt key decisions and actions. The arrangements are documented in the Covid-19 Recovery Framework and cover response, recovery, day job and Member oversight. • The framework sets out how we will take forward work within the Council and across the borough to move from the COVID-19 crisis response / management phase to the recovery phase. It sets out a narrative both internally and externally on how we will approach this next phase. It frames the choices and decisions that will need to be made and provides an overarching framework within which detailed work can be planned and taken forward at both a strategic and operational/tactical level. • Business continuity plans(BCPs) have been reviewed and updated to ensure they were fit for purpose to address the immediate response to working arrangements from Covid-19. • The HR Recovery Workstream group is reviewing the Workforce and Organisational Development Plan to ensure it reflects the current situation. They are taking the lead in ensuring risk assessments are completed and have developed relevant guidance that is available for managers and staff to assess the impact from Covid-19 and determine relevant actions to be taken. • Comprehensive communications strategy being implemented for staff, elected members, the public and businesses. Within the strategy a

Potential Governance Issue	Factors Driving the Governance Issue	Update to Controls Identified in May 2019 Audit Committee Report
	• PPE will still be required where appropriate and the Authority will follow and promote Government guidance on its use such as the use of face coverings on public transport and in some other settings; • There will be a significant financial impact for the Authority; and • The economic impact across the Borough as a whole will be substantial – nationally the forecast is for 14% GDP down this year and 15% GDP up next year.	stakeholder communication plan has been developed detailing key stakeholders both internal and external to the council and the communication method and frequency to be used in the delivery of key messages. • Member oversight and engagement through regular reporting to the Mayor and Cabinet, and through recommenced 'virtual' meetings, ensuring appropriate Member involvement in key decisions. • The recovery activity will be driven through four overarching strategic themes in line with the Our North Tyneside Plan plus one for the Council as an organisation – Our People, Our Places, Our Economy and Our Organisation. 25 workstreams have been established to support each strategic theme working towards ensuring that we are able to recover and restart services ensuring the safety of our staff and residents and supporting local businesses to enable economic recovery and growth. They will also link with the work programmes in the Government Recovery Strategy as well as national decisions, the Alert Level nationally and locally and NHS winter planning. Each workstream will have a Cabinet Member and Officer lead. • Government guidance and legislation forms a key strand of work undertaken at the relevant Officer groups to determine relevant work to be taken by the 25 recovery workstreams who, where relevant undertake risk assessments and develop plans to ensure necessary actions are identified and progressed. • Managing business support activities

Potential Governance Issue	Factors Driving the Governance Issue	Update to Controls Identified in May 2019 Audit Committee Report
		via the Business Support and Town Centre workstreams linked to the regional economic recovery plans of the North of Tyne Combined Authority and the NELEP. Providing a regional basis and broader economic geography on which to tackle the impact of Covid-19 and to develop regional strategies to deliver economic growth and attract inward investment. • Additional Government funding to support recovery has been received with the purpose to help respond to Covid-19 pressures across all services the Council delivers, including support for adult social care workforce, for helping the most vulnerable, support our local businesses and keeping the economy going. • Monthly returns are being completed to MHCLG to outline the financial impact of the Covid-19 pandemic on the Finances of the Authority. Officers are continuing to work with Services to ensure forecasts are up to date and accurate as well as ensuring that all grant funding available is secured. • A comparison analysis between the current budget and Medium-Term Financial Plan and the estimated financial impact from COVID-19 will be undertaken. This will help identify any financial risks across the General Fund, Dedicated Schools Grant, Housing Revenue Account and Investment Plan. This will also enable a modelling exercise to be completed on potential impact of Council Tax and Business Rate against our agreed planning assumptions.

Appendix A

Potential Governance Issue	Factors Driving the Governance Issue	Update to Controls Identified in May 2019 Audit Committee Report
Finance and Resources – There is a risk that due to significant historic reduction in local authority core funding and the ongoing uncertainty of funding beyond 2020/21; compounded with patchwork funding for social care and the introduction of new funding formulas for schools, the Authority may not be able to make appropriate plans to ensure its financial sustainability.	The exact trajectory of future funding to local Government in general remains uncertain. The spending review for 2020-21 was announced as a one-year review with the Government's intention to carry out a full spending review for the three years beyond 2020-21. An outcome of the current Covid-19 response is that the Government have advised that the spending review, fair funding review and the move to 75% business rate retention will be paused for a further year. This brings further uncertainty from a financial planning perspective. Additional funding for social care for 2020-21 was announced and the Adult Social Care precept proposed for 2021. The expectation that Adult Social Care pressures are funded through Council Tax increases continues to leave the burden with residents and gives no indication of the long-term plans for funding social care. The Adult Social Care green paper is still awaited. Demand for services for vulnerable adults and children continue to grow. Services have continued to reshape and respond to the challenge of reducing resources however there are increasing numbers of children at risk and we are well versed on the impact of an ageing population. Our schools continue to face financial challenges not least from unfunded legislative requirements, rising High Needs and the impact of the shift to the national funding formula. The	• Flexibility within the savings plans and approach to managing the in-year budget. Flexibility will allow us to reconfigure if the assumptions that have been made prove to be incorrect. It should be noted that due to the outbreak of Covid-19 the 2020-21 saving targets may not be achieved. • Bi-monthly budget reporting to Cabinet. Publicly reporting to Cabinet on each project as part of the Financial Plan ensures challenge on the financial benefits of the Creating a Brighter Future programme. Any inflationary impact will be considered as part of the monitoring report. Budget reports are also taken to Finance Sub-Committee. • Reporting to the Overview & Scrutiny Committee as required. Ensures checks and challenge for each project on performance and non-financial benefits of the savings programme. Monthly progress reports are now submitted to Overview & Scrutiny Committee. • Investment Programme Board monitors and manages the Investment Plan receiving reports on exceptions. Outcomes are reported to Cabinet, Finance Sub-Committee and relevant scrutiny sub-committees as part of the budget monitoring process. Our local Prudential Code provides clear parameters on affordability. • We work closely with national, regional and sub-regional financial networks to help ensure we are informed and aware and contribute to the debate regarding any national developments. • Key financial officers meet on a regular basis to discuss strategic financial issues. This group will be

Potential Governance Issue	Factors Driving the Governance Issue	Update to Controls Identified in May 2019 Audit Committee Report
	authority carries the risk associated with a small number of high value deficits, with an indication the number of schools in deficit may grow. The borough continues to grow and has seen strong housing growth in recent years. This brings with it, additional demand for services across the borough. Responding to increased waste collection, the impending changes to recycling and waste management from central government and contracting arrangements will bring additional/new cost pressures, the funding of which is uncertain. Future resource forecasts have been provided within the current Financial Plan however the fundamental uncertainty beyond 2020-21, and the potential impact from Brexit adds to the risk of developing a financial plan and ensuring financial sustainability of the authority. The impact of Covid-19 has financial repercussions for 2020-21 and beyond adding further uncertainty to the ability to ensure financial sustainability of the Authority through financial planning.	the key group to deliver the finance workstream during recovery from Covid-19. • Contribute to ongoing Government consultation on matters affecting local government finance e.g. 75% business rate retention, Fair Funding Review and school funding. Being involved in the consultation process enables any issues or concerns specific to NTC to be highlighted before final decisions are made. However, this has been suspended due to Covid-19. • Analyse the Spring Statement for potential impact. Usually this would have given an indication of potential changes which may influence officers' assumptions; however, the latest spring statement announcement gave no indications of future funding and has been further impacted by the Covid-19 outbreak. • Weekly Covid-19 update with Finance Officers to ascertain the current financial pressures to understand the scale of impact and consider potential solutions.

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Appendix B

Annual Governance Statement (AGS) Framework

Evidence is gathered from a variety of sources including:

The Governance Framework – examination of key documents/functions

Council and Service Policies

Business Plans and Risk Registers

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Supporting evidence and assurances are reviewed – this comes from:

Internal Audit – periodic and annual reports

Financial Management – financial plans, statutory returns, external audit

Members Assurance – scrutiny functions, Standards Committee

Risk Management – risk management strategy

Assurance Statement – completed annually

Chief Finance Officer's Statement – completed annually

Council and Cabinet Meetings

↓

Draft AGS compiled together with action plan to address any identified governance issues

↓

Draft AGS and action plan reviewed by Senior Leadership Team and Chief Executive

↓

Draft AGS presented to Audit Committee for review and approval

↓

AGS signed by Elected Mayor, Chief Executive, Chair of Council and Chair of Audit Committee

↓

AGS included within the Annual Financial Report

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ITEM 9

Title: 2019/20 Opinion on the Framework of Governance, Risk Management and Control

North Tyneside Council
Report to Audit Committee
Date: 29 July 2020

Report from Service Area: **Resources**

Report Author: **Kevin McDonald, Acting Chief Internal Auditor (Tel: 643 5738)**

Wards affected: **All**

PART 1

1.1 Purpose:

The purpose of this report is to provide the annual opinion from the Chief Internal Auditor on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, in accordance with the Public Sector Internal Audit Standards.

1.2 Recommendation:

It is recommended that the Audit Committee considers and notes the Chief Internal Auditor's 2019/20 'satisfactory' opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control, attached as **Appendix A**.

1.3 Council Plan and policy framework

The work of Internal Audit and the Audit Committee covers all service responsibilities as identified within the Council Plan.

1.4 Information

Internal Audit Annual Opinion 2019/20

1.4.1 The Chief Internal Auditor is required under the Public Sector Internal Audit Standards (PSIAS) to provide an annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The 2019/20 opinion from the Chief Internal Auditor is attached as **Appendix A**. This report documents the work undertaken by Internal Audit during this period, highlights the main findings from this work, sets out Internal Audit's resourcing in the year and gives the overall opinion of the Chief Internal Auditor on the adequacy and effectiveness of the framework of governance, risk management and control for the organisation. This reflects the expected content set out in the Public Sector Internal Audit Standards.

1.4.2 The opinion is a source of assurance to North Tyneside Council when preparing the Annual Governance Statement. This is prepared separately and presented to Audit Committee by the Head of Resources (Chief Finance Officer).

1.5 Decision Options:

It is recommended that the Audit Committee:

(a) notes the 2019/20 opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control, attached as **Appendix A**; and
(b) considers this opinion as a strand of assurance when receiving the Annual Governance Statement 2019/20.

There are no other options available in relation to this report.

1.6 Reasons for recommended option:

This recommendation will allow the Council to operate in line with legislation, good practice and professional guidance.

1.7 Appendices:

Appendix A: 2019/20 Opinion on the Framework of Governance, Risk Management and Control

1.8 Background information:

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author.

(a) Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2017 (P) Public Sector Internal Audit Standards
(b) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2019 (P)
(c) Financial Regulations C.24 – C.35, Version 5a, September 2013 (P) http://november.northtyneside.gov.uk:7777/pls/portal30/NTC_PSCM.PSCM_Web.download?p_ID=515604
(e) Strategic Audit Plan 2019/20, March 2019 (P) https://my.northtyneside.gov.uk/sites/default/files/meeting/agenda/audit%20agenda%20for%2027%2003%202019.pdf
(f) Internal Audit Reports & Briefing Notes prepared during 2019/20 (C)
(g) The Accounts and Audit Regulations 2015, April 2015 (P) http://www.legislation.gov.uk/uksi/2015/234/pdfs/uksi_20150234_en.pdf

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

Effective internal audit is an essential part of the Authority's governance arrangements. Internal Audit examines the Authority's systems of internal control, and the economy, efficiency and effectiveness with which resources are deployed. The audit of the Authority's activities promotes good financial and non-financial governance and the importance of value for money. Effective control in these areas reduces the potential for loss through fraud, waste and inefficiency.

There are no direct financial implications arising from the recommendations set out in this report.

2.2 Legal

The Accounts and Audit Regulations 2015 require the Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The Public Sector Internal Audit Standards require that the Chief Internal Auditor delivers an annual Internal Audit Opinion, which concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This report complies with all necessary requirements of the Public Sector Internal Audit Standards.

2.3 Consultation/community engagement

The 2019/20 opinion on the adequacy and effectiveness of the framework of governance, risk management and control summarises Internal Audit findings communicated to and discussed with service management throughout the course of 2019/20. Regular reports have also been made to the Audit Committee throughout the year, advising of the outcomes of Internal Audit's work, in accordance with the Audit Committee's planned schedule of work.

2.4 Human rights

There are no human rights issues arising from this report.

2.5 Equalities and diversity

There are no equality and diversity issues arising from this report.

2.6 Risk management

Internal Audit activity is based on a risk-based approach, thus ensuring that coverage is focussed on areas of Council activity where Internal Audit resource will deliver most benefit and assist most effectively in the management of risk.

There are no specific risks arising from this report.

2.7 Crime and disorder

There are no specific crime and disorder issues arising from this report. The work of Internal Audit is a key strand in the Authority's counter-fraud arrangements, as set out in the Strategic Audit Plan.

2.8 Environment and sustainability

There are no environment and sustainability issues arising from this report.

Report authors Kevin McDonald

Internal Audit Service

2019/20 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control

July 2020

North Tyneside Council

Contents

Executive Summary

Overall, Internal Audit work performed in the financial year 2019/20 found that internal control systems in the areas audited were effective.

The majority of audited areas were awarded an audit opinion of ‘significant assurance’ or ‘full assurance’. No ‘critical priority’ recommendations were made by Internal Audit during the year, and no ‘no assurance’ audit opinions have been issued or are pending. This demonstrates that overall, a sound approach to governance and control is in place throughout the organisation in the areas audited.

As reported to Audit Committee, a number of areas of good practice were identified throughout the year. In other areas, improvement plans already in place by management, together with Internal Audit’s recommendations, will continue to strengthen the organisation’s framework of internal control.

The opinion of the Chief Internal Auditor is therefore that, at the time of preparing this report, the organisation’s internal control systems in the areas audited are **satisfactory.** This is a positive assessment of the Authority’s control environment and reflects favourably on the organisation’s governance arrangements.

As the risk environment within which local government operates continues to change, we will incorporate emerging risk areas within our future audit coverage. This will help to ensure that the annual opinion considers all material issues likely to affect the Chief Internal Auditor’s judgement on governance, risk management and control.

1 Purpose of Report

1.1 This report has been written by the Chief Internal Auditor to provide an annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

2 Governance, Risk Management and Control

2.1 Management's responsibility for the effectiveness of the internal control system is clearly set out in the Authority's Financial Regulations. The Regulations state[1]:

- It is the responsibility of the Chief Finance Officer to assist the Authority to put in place an appropriate control environment and effective internal controls which provide reasonable assurance of effective and efficient operations, financial stewardship, probity and compliance with laws and regulations.

- It is the responsibility of Chief Officers to:

    - Manage processes to check that established controls are being adhered to and to evaluate their effectiveness, in order to be confident in the proper use of resources, achievement of objectives and management of risks.

    - Review existing controls in the light of changes affecting the Authority and to establish and implement new ones in line with guidance from the Chief Finance Officer and Internal Audit. Chief Officers should also be responsible for removing controls that are unnecessary or not cost or risk effective – for example, because of duplication.

    - Ensure staff have a clear understanding of the consequences of lack of control.

2.2 Appropriate controls will depend, amongst other factors, on:

- The nature, size and volume of transactions;
- The degree of control which management is able to exercise personally;
- The geographical distribution of the enterprise; and
- The cost of operation of the controls against the benefits expected from them.

[1] Financial Regulations, Version 5a (September 2013), Regulations C.20-C.23

2.3 There are eight main types of internal control, namely:

Preventative Controls

(i) Segregation of duties (no one person should be responsible for processing and recording a complete transaction)

(ii) Authorisation and approval (all financial transactions should require authorisation by an appropriate responsible official; the limits of authorisation should be specified)

(iii) Physical (custody of / access to tangible assets should be secure and limited to authorised personnel)

Detective Controls

(iv) Arithmetic & Accounting (controls within the recording function to check that transactions have been authorised, are included, are correctly recorded and are accurately processed)

Directive Controls

(v) Organisation (responsibilities should be defined and allocated; reporting lines should be identified; delegation of authority should be clearly specified)

(vi) Supervision (all actions by all levels of staff should be supervised; the responsibility for this supervision should be clearly laid down and communicated to the person being supervised)

(vii) Personnel (procedures should exist to ensure that staff are competent to carry out the jobs assigned to them, including proper recruitment and performance management procedures, career prospects, training and pay policies)

(viii) Management (controls exercised by management outside the day to day routine of the system, including supervision).

2.4 When auditing, Internal Audit assist management by testing to see whether the controls established for any given system are appropriate. It is important to stress that Internal Audit, while part of the Authority's overall assurance framework, is not a substitute for effective internal control within the Authority's systems.

3 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control

3.1 The Chief Internal Auditor is required under the Public Sector Internal Audit Standards (PSIAS), introduced in 2013 and revised April 2017, to provide an annual opinion, based on an objective assessment of the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. For the purpose of meeting this requirement, the Chief Internal Auditor provides one of two opinions:

(a) That the organisation's framework of governance, risk management and control is **satisfactory** (i.e. that satisfactory assurance can be obtained from governance systems and procedures in place); or
(b) That the organisation's framework of governance, risk management and control is **not satisfactory** (i.e. that there is insufficient control in evidence within the organisation's governance systems to provide satisfactory assurance).

3.2 The opinion of the Chief Internal Auditor is that, at the time of preparing this report, the organisation's internal systems of governance, risk management and control were **satisfactory** overall during 2019/20. This opinion on the framework of governance, risk management and control has been prepared in accordance with the Public Sector Internal Audit Standards and the accompanying Local Government Application Note issued by the Chartered Institute of Public Finance and Accountancy as the 'relevant Internal Audit standard setter'.

3.3 This judgement is informed by the outcomes of Internal Audit work during 2019/20, which are reported to the Audit Committee in regular updates of key outcomes. These have demonstrated that the majority of audit opinions for work undertaken in this period have been 'full assurance' or 'significant assurance', with a small number of 'limited assurance', and no 'no assurance' opinions. A full list of audits performed and opinions issued is included at **Annex A**. In addition, Internal Audit's work on project assurance (described in paragraph 5.12 below and in **Annex A**) has also been a source of evidence and business intelligence when compiling this annual opinion.

3.4 A number of areas of good practice were identified throughout Internal Audit's work during the year. In addition, evidence checking and follow up performed by Internal Audit has demonstrated effective management action in implementing Internal Audit's recommendations.

3.5 It is recommended that Internal Audit's satisfactory opinion on the framework of governance, risk management and control is considered as a source of assurance for the preparation of the Annual Governance Statement for 2019/20, and its subsequent consideration by the Audit Committee.

3.6 This is a positive opinion, which means that the organisation has suitable internal control systems. This opinion is based solely on the areas reviewed, and the progress made by the organisation to action Internal Audit recommendations. Assurance can never be absolute, and neither can Internal Audit work be designed to identify all weaknesses that might exist.

3.7 However, Internal Audit is required to be alert to changes in the risk environment and conditions in which any audited entity operates. Internal Audit notes that the Coronavirus pandemic, which has brought about a number of significant changes nationally, occurred at the end of the 2019/20 financial year. The Coronavirus pandemic has been far-reaching in its impact and local authorities have subsequently been a key part of the response to the pandemic. The full impact of the pandemic is still evolving and all local authorities are in the process of evaluating the changes to their risk profile and operations. North Tyneside Council has expressly considered the impact of Coronavirus on its operations and Internal Audit will formally consider the impact of the Coronavirus pandemic as part of our coverage during 2020/21.

3.8 The Chief Internal Auditor has not needed to place reliance on the work of other bodies in forming this view, and there are no limitations in the scope of the opinion.

3.9 In accordance with its role, Internal Audit has agreed recommendations with management aimed at further strengthening the control environment in operation within the organisation. It is management's responsibility to implement agreed recommendations. As part of 2020/21 planned service improvements, Internal Audit will be reviewing the approach to evidence checking the extent to which agreed recommendations have been implemented. In doing so, Internal Audit must balance the value to be gained from revisiting previous recommendations, management's own responsibility for their implementation and the respective value to be gained by reviewing new areas of emerging risk.

4 Audit Resourcing During 2019/20

4.1 The Regulations governing the operation of Internal Audit are the Public Sector Internal Audit Standards (PSIAS) 2017. In terms of resourcing, the PSIAS state that Internal Audit must be "appropriately positioned and adequately resourced". The PSIAS goes on to state that the Chief Internal Auditor must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. Where the Chief Internal Auditor believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board (in North Tyneside, the Audit Committee).

4.2 In 2019/20, Internal Audit's resourcing has been lower than planned, due to a vacant Senior Auditor post and a long-term sickness absence. Combined, these factors reduced resource by approximately 1.4 full time equivalent employees from that forecast during the year.

4.3 Recruitment to the vacant Senior Auditor post took much longer than anticipated, but a successful recruitment has now taken place. In addition, the long-term sickness absence has ended. Resourcing continues to be closely monitored and management of resources continues to be undertaken under the Council's prevailing policies.

5 Internal Audit Work Performed During 2019/20

5.1 Internal Audit has provided an audit, advice, and programme assurance service to the Authority in 2019/20. The work of Internal Audit is governed by the PSIAS and the accompanying Local Government Application Note issued by the Chartered Institute of Public Finance & Accountancy as the 'relevant Internal Audit standard setter'.

5.2 The audit reports and briefing notes issued during 2019/20, and those related to this period which are currently being finalised with our audit clients, are set out at **Annex A**.

5.3 A framework of opinion classifications is used in Internal Audit reporting. The framework applies an overall assurance judgement to each system audited, as defined below.

Full Assurance	The system of internal control is designed to meet the organisation's objectives and controls are consistently applied in all the areas reviewed.
Significant Assurance	There is a generally sound system of control designed to meet the organisation's objectives. However, some weakness in the design of, or occasional non-compliance with, key controls put the achievement of the organisation's objectives at risk in some of the areas reviewed.
Limited Assurance	Weaknesses in the design of, or regular non-compliance with, key controls put the achievement of the organisation's objectives at risk in some or all of the areas reviewed.
No Assurance	Significant weaknesses in the design of, or consistent non-compliance with, key controls could result (or have resulted) in failure to achieve the organisation's objectives in the areas reviewed.

5.4 The opinions given to audits issued during 2019/20 are also shown in **Annex A**.

5.5 In addition to the overall opinion given on every internal audit, individual recommendations within each report are classified as critical, high, medium or low priority. This prioritisation is designed to assist management in assessing the importance of each recommendation. The definitions of these priority classifications are set out below:

Priority	Description
1* Critical / Catastrophic	Action that is considered critical to ensure the organisation is not exposed to unacceptable risks.
1 High / Fundamental	Action that is considered urgent to ensure that the service area / establishment is not exposed to high risks.
2 Medium / Significant	Action that is considered necessary to avoid exposure to considerable risks.
3 Low / Less Significant	Action that is considered desirable or best practice and would result in enhanced control or better value for money.

5.6 The number of Internal Audit recommendations agreed with management during the 2019/20 audit year, classified against each priority, is provided in the table below (data from the previous five years is also shown for comparison):

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Critical Priority	Nil	Nil	Nil	Nil	Nil	Nil
High Priority	7 (3%)	Nil	3 (2%)	2 (1%)	Nil	3 (2%)
Medium Priority	101 (37%)	131 (41%)	56 (36%)	51 (38%)	37 (28%)	52 (32%)
Low Priority	163 (60%)	187 (59%)	98 (62%)	82 (61%)	94 (72%)	107 (66%)
TOTAL	271 (100%)	318 (100%)	157 (100%)	135 (100%)	131 (100%)	162 (100%)

Note: Percentages contain roundings

5.7 Prioritisation of Internal Audit recommendations is controlled through Internal Audit's quality control and file review processes. This is in accordance with the requirements of Public Sector Internal Audit Standards, which requires that a Quality Assurance and Improvement Programme is in place for Internal Audit's work.

Audit Highlights 2019/20

5.8 This section of the report is designed to draw attention to significant audits and findings from Internal Audit in the 2019/20 year. It should be read in context of the overall positive 'satisfactory' audit opinion described above.

5.9 It is of comfort to the Authority that the Council Tax, Business Rates and Rent Assessment and Collection high value / high volume transactional systems achieved assurance of ‘significant’ or ‘full’. These systems comprise the main processes by which the organisation receives income.

5.10 Attention is also drawn to the ‘significant assurance’ opinion reached in respect of the Implementation of the General Data Protection Regulation (GDPR). Appropriate arrangements were found to be in place across the Authority to help ensure GDPR compliance. Given the importance of this, a ‘significant assurance’ opinion in respect of this aspect of the Authority’s arrangements is to be welcomed. The implementation of the Authority’s collaborative tooling solution should further enable the implementation of effective record management controls across its unstructured data sets.

5.11 Internal Audits of Debt and Income Management and Cash and Non-Credit Income received ‘Limited Assurance’ audit opinions. The Debt and Income Management audit identified areas where controls and procedures can be strengthened to enhance the control environment. The Sundry Income Collection and Debt Policy was updated in 2017. Since this time, the implementation of the new ASH debtors system and the Aspien recovery module had created significant changes to working practices, which needed to be incorporated into the policy. An audit of cash arrangements identified good controls in place within the central corporate systems, with several areas of good practice identified, but highlighted some weaknesses in cash handling procedures within a sample of satellite establishments visited as part of the review.

5.12 In addition to performing internal audits of existing systems within the Authority and responding to queries on the operation of such systems, during 2019/20 Internal Audit has had a significant and increasing role in advising on new systems within the Authority. A full list of the programme assurance and project boards supported by Internal Audit is shown at **Annex A**. Whilst the time spent on such assurance work reduces the number of available audit days for traditional substantive testing, it is considered an efficient use of Internal Audit’s resource, in that assurance is obtained that effective controls are incorporated into new major systems from the outset. In turn, this minimises the risk of weaknesses in systems and strengthens the control environment. It is expected that this type of audit work will continue in future years. Internal Audit’s programme assurance work during 2019/20 included supporting:

a) Cash Kiosk Replacement Programme
b) Catering Services Chip & Pin
c) Children’s Payment and Process Redesign Group
d) ICT Disaster Recovery Project
e) ICT Office 365 Project Board
f) ICT Operations and Advisory Board

5.13 As a general comment, recent projects have identified areas that would have benefitted from more in-depth assurance from Internal Audit at an earlier juncture. This has been discussed with the Head of Resources (Section 151 Officer).

5.14 There are a number of funding organisations that require an Internal Audit review prior to final grant claim submission. This area of our activity is also shown at **Annex A** and involved the certification of £17.994m grant funding in 2019/20.

5.15 Wherever possible, Internal Audit has sought to leverage shared learning through our shared service partnership with Northumberland County Council.

6 Schools' Financial Value Standard

6.1 Time was included in the audit plan for 2019/20 to support and co-ordinate the work required by the Schools Financial Value Standard (SFVS) on behalf of the Authority.

6.2 The SFVS has been designed in conjunction with schools to assist them in managing their finances and to give assurance that they have secure financial management in place. Governing bodies have formal responsibility for the financial management of their schools, and so the standard is primarily aimed at governors; however the Authority's Chief Finance Officer is responsible for ensuring that submissions made by schools are in line with the judgements on these schools which have already been reached by Internal Audit.

6.3 On behalf of the Chief Finance Officer (Section 151 Officer), Internal Audit co-ordinated, received and reviewed Schools' Financial Value Standard submissions, for all of the Authority's grant-maintained schools. All schools submitted their self-assessments by the deadline of 31 March 2020. However due to the impact of the Coronavirus pandemic, the Department for Education subsequently removed the requirement to submit an SFVS submission for 2019/20. Notwithstanding this, all Internal Audit SFVS work was completed on time.

7 Special Investigations, Counter Fraud and the National Fraud Initiative (NFI)

7.1 In common with previous years, Internal Audit has performed a number of investigations and management requests during 2019/20. These relate to issues which could not be foreseen in advance, and where irregularity may have been indicated. As such, it is important that the organisation can call upon Internal Audit resource to respond quickly to assess the control and governance issues indicated and to secure evidence if required. Internal Audit's work in this area has included:

- potential cash discrepancies;
- appropriateness of ICT access; and
- interrogation of ICT systems and email records.

7.2 Where irregularities were confirmed, swift action was taken by management (supported by Internal Audit) to cease the potential for ongoing impropriety. Causes were then investigated and this, as is typically the case in this area of work, tended to highlight the need for enhanced directive control (see paragraph 2.3), in particular management and supervisory controls.

7.3 There is one dedicated Counter Fraud officer within the Internal Audit team. A thorough review of the Authority's operations has been undertaken, from a counter fraud perspective, and a 'counter fraud blueprint' has been developed highlighting the areas of North Tyneside's operations where the risks of fraud are likely to be most prevalent. These risk areas are revised and ranked annually, and work is prioritised to help ensure that our counter fraud resource is focused on areas of greatest risk to the Authority. Counter Fraud work undertaken during 2019/20 has resulted in the realisation of £0.130m in directly cashable savings and £0.506m in indirectly cashable savings.

7.4 North Tyneside Council is part of the Cabinet Office's National Fraud Initiative and is thus legally obliged to provide relevant information under the requirements of the Audit Commission Act 1998. Before this information can be provided, the Authority is required to ensure that appropriate steps have been taken to notify data subjects held in the organisation's relevant information systems that data may be used for the prevention and detection of fraud.

7.5 As in previous years, Internal Audit have acted as the lead within the Authority for the NFI data-matching exercise. Data was extracted from the relevant Authority systems and submitted to the Cabinet Office in preparation for the 2019/20 exercise. Details of data matches have now been released and Internal Audit is currently investigating the matches, in conjunction with officers within relevant departments, and updating the NFI system with outcomes.

8 Ad-hoc Queries / Requests for Advice

8.1 Internal Audit receives requests for ad-hoc advice and support throughout the year, in respect of which we may be required to extract prime data or produce analysis but where it is not usually appropriate to issue a formal report.

9 Public Sector Internal Audit Standards: Summary of Conformance

9.1 All public sector internal audit providers in the UK are required to comply fully with the Public Sector Internal Audit Standards (PSIAS). The PSIAS require the Chief Internal Auditor to develop and maintain a Quality Assurance and Improvement Programme (QAIP) to enable the Internal Audit service to be assessed against the PSIAS, and a related Local Government Application Note (LGAN), for conformance.

9.2 The QAIP must include both internal and external assessments. Internal assessments are both ongoing and periodical and external assessment must be undertaken at least once every five years. In addition to evaluating compliance with the PSIAS, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

9.3 Internal Audit services are delivered to the Authority by the Shared Internal Audit Service (which provides services to North Tyneside Council and Northumberland County Council). The Shared Internal Audit Service was externally assessed for compliance with the PSIAS during 2017 / 2018 and the assessment concluded that:

“The Shared Internal Audit Service is compliant with the requirements of the Public Sector Internal Audit Standards. There are a small number of areas which require action but these do not significantly impact on the overall opinion. There were no areas of concern to be reported.”

9.4 In accordance with PSIAS, annual self-assessments have been completed since the external inspection which are congruent with the opinion of the external assessment. The small number of areas in which further development had been identified, (e.g. the involvement of the Chair of Audit Committee in the Chief Internal Auditor’s performance appraisal) have been implemented.

10 Clients’ Views and Quality Assessment and Improvement Programme

10.1 For several years, Internal Audit has sought client feedback in respect of all audit reports issued, at the conclusion of each audit assignment. As part of Internal Audit’s Quality Assessment and Improvement Programme, the client feedback questions were amended for the 2019/20 year across all client entities.

10.2 The feedback received from respondents for 2019/20 remains very positive. Clients score the service from 1 to 4 against a number of criteria, with 1 being very satisfied and 4 being very dissatisfied. From all the returned feedback forms, clients’ overall opinion was that audits are constructive and provide value to management. The overall average score in 2019/20 was 1.57 (1.0 is the highest that can be achieved).

10.3 Internal Audit seeks to continually improve and will be reviewing and implementing new processes through its Quality Assessment and Improvement Programme. The theme of comments added to the feedback is that audits are conducted in a professional manner and findings and recommendations will lead to system improvements. However, Internal Audit seeks to continually improve and will be reviewing and implementing new processes during 2020/21 to refine the reporting format and review process.

10.4 The full results for 2019/20 are shown at **Annex B**.

11 Annual Governance Statement 2019/20

11.1 The Annual Report from the Chief Internal Auditor is one source of intelligence for the organisation when preparing the Annual Governance Statement. Internal Audit has continued to target its assurance activity at areas of risk in its 2019/20 coverage in line with the agreed audit plan.

Regular reports have been presented to Audit Committee during the year to allow the Audit Committee to develop awareness of the application of the Council's governance structure.

11.2 It is suggested that the following issues are considered for inclusion in the Annual Governance Statement:

Overall Opinion on the organisation's internal systems of governance, risk management and control:

The overall opinion of the Chief Internal Auditor on the organisation's internal systems of governance, risk management and control, was found to be satisfactory (ref. point 3.2).

In determining the overall 'satisfactory' opinion, the Chief Internal Auditor has had regard to the established framework of core financial systems in place within the Authority, which when audited during 2019/20 were found to bear appropriate internal controls and to be operating satisfactorily.

IA/KM
July 2020

Annex A:
Formal Audit Reports issued during 2019/20

Audit:	Opinion:
Business Rates	Significant
Cash and Non-Credit Income	Limited
Council Tax	Significant
Customer Relationship Management System	Significant
Debtors	Limited
Deprivation of Liberty Safeguards	Limited
Email	Significant
Implementation of General Data Protection Regulation	Significant
Internet	Significant
Leisure Management System	Significant
Network Management	Significant
Rent Assessment & Collection (2018/19)	Full
Tyne Port Health Authority Annual Return	N/A

Reports Pending from 2019/20 (draft report issued, awaiting issue as final report)

Audit:

Creditors
Risk Management
S106 / S278 Arrangements

Grant Claim Certification

A1058 Coast Road Local Growth Fund (£7.4m)
A191 Employment Corridor Local Growth Fund (£4.7m)
Carbon Reduction Commitment Energy Efficiency Scheme (£0.2m)
Growth Hub Funding for NECA / LEP (£0.4m)
Local Transport Plan (£4.2m)
Swans Business Centre Phase 3 Local Growth Fund (£0.014m)
Swans Quay Work Feasibility Local Growth Fund (£0.5m)
Troubled Families (£0.58m)

Project Boards / Working Groups

Internal Audit has also supported the following Project Boards / Working Groups during 2019/20 in a programme assurance role:

Cash Kiosk Replacement Programme
Catering Services Chip & Pin
Children's Payment & Process Redesign Group
ICT Disaster Recovery Project
ICT Office 365 Project Board
ICT Operations & Advisory Board
ICT Performance and Prioritisation Board

Ad-hoc Queries / Requests for Advice

Internal Audit receives requests for ad-hoc advice and support throughout the year, in respect of which we may be required to extract prime data or produce analysis but where it is not always appropriate to issue a formal report.

Annex B: Overall Results from Client Feedback Forms 2019/20

Satisfaction score between 1 and 4 with 1 being very satisfied and 4 being very dissatisfied:

	Average Score
AUDIT PLANNING & CONSULTATION	
• With the period of notice for commencement of the audit	1.29
• With the explanation provided of the audit process	1.14
• With the areas of coverage from the audit	1.57
• That your requirements were reflected by the audit	1.57
AUDIT APPROACH	
• Attitude and professionalism of the auditor	1.43
• Auditor’s knowledge and understanding of auditee’s operational requirements	1.43
• Communication skills of the auditor	1.43
• Being kept informed of audit progress, including consultation on findings and likely recommendations	1.71
REPORTING ARRANGEMENTS	
• With the arrangements for consultation on the draft report	1.57
• With the accuracy and materiality of the report findings	1.29
• With the usefulness and practicality of the conclusion and recommendations in the report	1.71
• With the clarity of the report	1.71
• With the format and presentation of the report	1.71
• The time taken to receive the report following the audit visit	2
OVERALL OPINON	
• That the audit was constructive and useful	**1.57**

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ITEM 10
Title: Key Outcomes from Internal Audit reports Issued between 1 November 2019 and 1 July 2020

North Tyneside Council
Report to Audit Committee
Date: 29 July 2020

Report from Service Area:	**Resources**	
Report Author:	**Kevin McDonald, Acting Chief Internal Auditor**	**(Tel: 643 5738)**
Wards affected:	**All**	

PART 1

1.1 Purpose:

The purpose of this report is to advise the Audit Committee of key outcomes from Internal Audit reports issued between 1 November 2019 and 1 July 2020 (**Appendix A**).

1.2 Recommendation(s):

It is recommended that the Audit Committee considers the key findings from, good practice identified in, and management action taken in response to the Internal Audit reports issued in this period, summarised in **Appendix A**.

1.3 Council plan and policy framework

The work of Internal Audit and the Audit Committee covers all service responsibilities as identified within the Council Plan.

1.4 Information

Key Outcomes from Internal Audit Reports Issued Between 1 November 2019 and 1 July 2020

1.4.1 The work programme established for the Audit Committee ensures that the Committee receives regular reports summarising the outcomes from Internal Audit's planned work during the year. This is important in ensuring that Audit Committee is able to maintain oversight of emerging risks and governance themes as these arise during the year. This also reflects the Public Sector Internal Audit Standards (PSIAS), which state that "in addition to the annual report, the Chief Internal Auditor should make arrangements for interim reporting to the organisation in the course of the year. Such interim reports should address emerging issues in respect of the whole range of areas to be covered in the annual report".

1.4.2 A report summarising key outcomes from Internal Audit work was originally scheduled for presentation to Audit Committee in March 2020, however the timing of the Coronavirus pandemic and consequent impact on meetings scheduled at that time means that the report has instead been prepared for this meeting of Audit Committee. A summary of key outcomes from planned Internal Audit reports issued between 1 November 2019 and 1 July 2020, including findings, areas of good practice identified and action taken to date by management in response to each audit, is attached as **Appendix A**. This information, along with intelligence gained from other substantive audit work reported earlier in the year and project assurance work, supports the development of the Annual Opinion from the Chief Internal Auditor on the Framework of Governance, Risk Management and Control.

1.4.3 Internal Audit has also supported a number of special investigations and management requests in this time period. Key themes arising from this work are included in Internal Audit's annual report.

1.5 Decision Options:

It is recommended that the Audit Committee considers the summary of Internal Audit reports issued, attached as **Appendix A**, as part of its consideration of the framework of governance, risk management and control within the organisation.

There are no other options available in relation to this report.

1.6 Reasons for recommended option:

This recommendation will allow the Authority to operate in line with legislation, good practice and professional guidance.

1.7 Appendices:

Appendix A: Key Outcomes from Internal Audit Reports Issued Between 1 November 2019 and 1 July 2020

1.8 Contact officers:

Kevin McDonald (Acting Chief Internal Auditor) Tel 643 5738
Chris Henderson (Senior Auditor) Tel 01670 623939

1.9 Background information:

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author.

(a) Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, March 2017 (P) PSIAS March 2017
(b) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, February 2019 (P)
(c) Financial Regulations C.24 – C.35, Version 5a, September 2013 (P) Financial Regulations
(d) Strategic Audit Plan 2019/20 March 2019 (P) Strategic Audit Plan 2019-20 Appendix A
(e) Internal Audit Reports & Briefing Notes prepared during 2019/20 and 2020/21(C)
(f) Corporate Strategic, Service Strategic and Operational Risk Registers (C)
(g) The Accounts and Audit Regulations 2015, April 2015 (P) The Accounts and Audit Regulations 2015

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

Effective internal audit is an essential part of the Authority's governance arrangements, both financial and non-financial. Internal Audit examines the Authority's systems of internal control, and the economy, efficiency and effectiveness with which resources are deployed. The audit of the Authority's activities promotes good financial governance and the importance of value for money. Effective control in these areas reduces the potential for financial loss through fraud, waste and inefficiency.

There are no direct financial implications arising from the recommendations set out in this report.

2.2 Legal

The Accounts and Audit Regulations 2015 require the Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The Public Sector Internal Audit Standards require that the Chief Internal Auditor should make arrangements for interim reporting to the organisation in the course of the year.

2.3 Consultation/community engagement

All Internal Audit reviews were shared with and reported to the relevant audit client upon conclusion of each audit assignment, with actions agreed by management. Management comments on the summary of key outcomes from Internal Audit reports have been included in the report.

2.4 Human rights

There are no human rights issues arising from this report.

2.5 Equalities and diversity

There are no equality and diversity issues arising from this report.

2.6 Risk management

Risks have been considered and there are no risks identified directly arising from this report.

2.7 Crime and disorder

There are no specific crime and disorder issues arising from this report. The work of Internal Audit is a key strand in the Authority’s counter-fraud arrangements, as set out in the Strategic Audit Plan.

2.8 Environment and sustainability

There are no environment and sustainability issues arising from this report.

Report authors Kevin McDonald
Chris Henderson

Internal Audit Service

Key Outcomes from Internal Audit Reports Issued Between 1 November 2019 and 1 July 2020

July 2020

North Tyneside Council

1 Introduction – the Framework of Governance, Risk Management and Control

1.1 Internal Audit is an independent and objective assurance function designed to add value and improve an organisation's operations. Under the Public Sector Internal Audit Standards (PSIAS), Internal Audit is required to help an organisation accomplish its objectives by "bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

1.2 It is important that the Audit Committee receives regular updates on key findings and governance themes from Internal Audit's work. This is also emphasised in the PSIAS which requires the Chief Internal Auditor to provide an annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, and also to report on emerging issues in year.

1.3 This report was originally scheduled for presentation to the March 2020 Audit Committee, but the timing of the Coronavirus pandemic and resulting impact on the ability to hold Committee meetings at that time has meant that this report is instead being presented in July 2020.

2 Purpose of this Report

2.1 This report summarises the outcomes from Internal Audit reports which have been finalised, in consultation with management, and issued in the period from 1 November 2019 – 1 July 2020. Information has been provided on the level of assurance for each audit (described below), the number of recommendations made (classified according to priority), areas of good practice identified, and main findings. The progress made/action taken by management in respect of key issues identified from each audit has also been included. It is too early to report on action taken for a number of recommendations as the target dates have not yet been reached. In these cases, recommendations will be followed up later in the year in accordance with Internal Audit's agreed processes.

2.2 It is intended that by providing regular reports on key outcomes from Internal Audit's work, this will enable the Audit Committee to develop an ongoing awareness of the soundness of the soundness of the framework of governance, risk management and control, in addition to receiving the Chief Internal Auditor's annual opinion on this matter (normally presented to Audit each May but due to the impact of Covid19 the audit opinion is being presented to Committee this year in July). Committee will note that the findings from some audits covered in this report are one of the intelligence strands which have informed the Chief Internal Auditor's opinion on the framework of governance, risk management and control.

3 Opinion Framework

3.1 A framework of opinion classifications is used in Internal Audit reporting. The framework applies an overall assurance judgement to each system audited, as defined below.

Full Assurance	The system of internal control is designed to meet the organisation's objectives and controls are consistently applied in all the areas reviewed.
Significant Assurance	There is a generally sound system of control designed to meet the organisation's objectives. However, some weakness in the design or inconsistent application of controls put the achievement of particular objectives at risk in some of the areas reviewed.
Limited Assurance	Weaknesses in the design of, or regular non-compliance with, key controls put the achievement of the organisation's objectives at risk in some or all of the areas reviewed.
No Assurance	Significant weaknesses in the design of, or consistent non-compliance with, key controls could result (or have resulted) in failure to achieve the organisation's objectives in the areas reviewed.

3.2 The opinions given to audits issued during this period are shown in **Section 5**.

3.3 In addition to the overall opinion given on every internal audit, individual recommendations within each report are classified as critical, high, medium or low priority. This prioritisation is designed to assist management in assessing the importance of each recommendation. The definitions of these priority classifications are set out in the following table:

Priority	Description
1* Critical	Action considered imperative to ensure the organisation is not exposed to unacceptable risks.
1 High / Fundamental	Action that is considered imperative to ensure that the service area / establishment is not exposed to high risks.
2 Medium / Significant	Action that is considered necessary to avoid exposure to considerable risks.
3 Low / Less Significant	Action that is considered desirable or best practice and would result in enhanced control or better value for money.

3.4 Prioritisation of Internal Audit recommendations is controlled through Internal Audit's quality control and file review processes.

3.5 In addition to performing internal audits of existing systems within the Authority and responding to queries on the operation of such systems, Internal Audit has a significant and increasing role in advising on new systems within the Authority. Programme assurance and project boards supported by Internal Audit are shown below. Whilst time spent on such assurance work reduces the number of available audit days, it is considered an efficient use of Internal Audit resource, in that assurance is obtained that effective controls are incorporated into new systems from the outset. In turn, this minimises the risk of weaknesses in systems and strengthens the control environment. Internal Audit has supported the following Project Boards (in a programme assurance role) and Working Groups during the period under review:

- Office 365 Project Board;
- Children's Controcc Governance Group; and
- ICT Operations Advisory Board;
- Catering New Schools Meals Payment System;
- CPPR (Child Payments);
- Cash handling (Covid 19);
- Business Grant Awards (Covid 19);
- Local and Regional PPE Requirements (Covid 19); and
- Social Care Payment Initiatives (Covid19).

3.6 Internal Audit has also supported a number of special investigations and management requests in this time period. Key themes arising from this work will be included in Internal Audit's annual report.

IA/KM/CH
July 2020

4 Main Outcomes – Audit Reports Issued During the Period 1 November 2019 to 1 July 2020

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
1	Internet Review	To determine whether systems and procedures in operation protect the Authority's data, systems and users from risks associated with use of the Internet. In particular whether: • the system is protected against risks associated with connecting to external networks; • there is a clear policy in place for use of the Internet; • the system is effectively supported and maintained; • the system is operating adequately and effectively to ensure constant Internet access; and • the system provides comprehensive management information.	**Significant**	0	0	1	3

Good Practice Highlighted	Main Issues Identified and Priority of Recommendations	Progress Made / Action Taken
• The Authority has recently implemented 'Sophos in the Cloud' which provides greater security. • ICT have implemented a number of management consoles (SCCM, Sophos, Fortinet) that can produce tailored reports. • The ICT Security Team review reports and have created alerts to identify attempts to access inappropriate content.	When browsing Google search engine using Google Chrome, a safe search is applied and cannot be removed by end users. For example, using the search term 'Adult Images' no explicit adult content is returned. However, using Microsoft's Internet Explorer or Edge browsers, it defaults to Microsoft's Bing. This recognises that adult content will be returned by the search and requests the user to remove the safe search to prevent filtering. This allows a user to view explicit adult images however, users would be blocked from visiting the website hosting the image. Internal Audit identified this issue in April 2019 and although ICT tested a solution, this was unsuccessful and the issue remains a concern **(medium).**	Management have advised that deep Inspection software has been implemented in ICT and they are planning to implement this throughout the wider NTC environment, but it will need careful planning and implementation.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
2	E-Mail System Review	To determine whether the controls and procedures in place for the Authority's e-mail system are adequate and operating effectively and are in accordance with legislation and Council policy.	Significant	0	0	1	3

Good Practice Highlighted	Main Issues Identified and Priority of Recommendations	Progress Made / Action Taken
• ICT have implemented multiple layers of security to protect the internal network from virus attack. • ICT report on a number of statistics from the e-mail system. • In order for an e-mail account to be created an e-form has to be completed by e-Form approver. • Users will receive notifications if an e-mail is blocked by Sophos or Mimecast. The user must then e-mail the ICT Service Desk and request the e-mail to be reviewed and unblocked. • There is a clear separation of duties within the ICT teams. • There is a clear backup policy in place for the three Exchange servers. • ICT have implemented automatic e-mails which alert a number of administrators if backups or replication fails.	Access to the Killingworth Data Centre requires three keys and only members of the ICT Security and Server teams have a business need to access. However, Killingworth Security have not been provided with a list of authorised ICT employees **(medium).**	Management have confirmed that a list of authorised officers has been provided to Killingworth Security and have also revised their procedures to enhance access security.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
3	Council Tax	To determine whether the systems and procedures in operation for Council Tax collection are functioning satisfactorily, are in accordance with legislation and the stated priorities within the Council Plan.	Significant	0	0	1	0

Good Practice Highlighted	Main Issues Identified and Priority of Recommendations	Progress Made / Action Taken
Testing identified that for the accounts examined, the Northgate system was updated fully and promptly following any amendments or actions such as valuation listing amendments, refunds and debt recovery.	The Financial Services team provides a list of reversed cheques to the Council Tax team on a monthly basis. Each month, cheques provided cover the previous six months. However, it was identified during the audit that the CT team had received a number of reversed cheques dating back to October 2018, in one month. A number of issues were identified with the information provided from Financial Services. The Council Tax team continues to work through these cheques and to date however a number are still outstanding **(medium).**	Management have confirmed that the process to progress the recommendation made is under review.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
4	Cash and Non Credit Income	To provide assurance to the Authority regarding procedural guidance, system access, receipt of income, reconciliation of income, and banking of income.	Limited	0	0	6	15

Good Practice Highlighted	Main Issues Identified and Priority of Recommendations	Progress Made / Action Taken
• User accounts are only created once training has been provided; • There are strong controls in place for resetting passwords and disabling accounts when an employee leaves the Authority. • There is adequate segregation of duties within IM with no employee completing end to end procedures. • Income Management undertake an in-depth reconciliation process. The e-returns are reconciled to reports produced from Security Plus. These are then reconciled to the bank statements. • Banking of income is done daily by Security Plus. Bank statements are produced the day after by Barclays and sent to IM.	• There are a number of large banking discrepancies within catering, these include takings at two schools being under banked by over £500 and one school over banked by over £500. **(medium)** • Issues at one school with signing to record the transfer of funds to a Security Plus guard. **(medium)** • The takings from a number of schools for the final day of term are left in the safe for a period of up to six weeks over the holidays. **(medium)** • During the site visits it was identified that a number of establishments do not have procedural manuals for cash handling. **(medium)** • One establishment visited was not entering money immediately through the till and instead left money on the bench beside the till. **(medium)** • One establishment visited was not providing customers with receipts and instead was placing these into the bin. **(medium)**	A reminder has been issued to staff on the importance of security to ensure the safety of the building, children, staff and cash. Staff members have been reminded that they need to ensure they are giving out a receipt to all customers. A notice has been placed on the window requesting that customers wait to receive a receipt for their payment. The remaining four medium priority recommendations have not yet reached the target date for implementation.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
5	Rent Assessment	To determine whether housing rent and service charges are accurately updated to reflect annual changes in rent levels in accordance with Government formula and Council Policy.	Full	0	0	0	0

Good Practice Highlighted	Main Issues Identified	Progress Made / Action Taken
There are effective practices in place with all Housing rents, service charges and garage rents subject to satisfactory modelling, reconciliation and checking for accuracy prior to being added to the live Northgate system.	No issues were identified during the review.	Not applicable.

6 Evidence Checking

6.1 Internal Audit would normally undertake evidence checking in respect of all high and a sample of medium priority recommendations, however due to the timing of the Coronavirus pandemic and the consequent restrictions this brought about, this has not yet been possible to perform. Internal Audit will develop a response to evidence checking as part of our ongoing evaluation of post pandemic assurance and will update Audit Committee as part of a future report in due course.

North Tyneside Council
Report to Audit Committee
Date: 29 July 2020

ITEM 11
Title: Strategic Audit Plan 2019/20 - Final Monitoring Statement

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Report from Service Area: **Resources**

Report Author: **Kevin McDonald, Acting Chief Internal Auditor (Tel: 643 5738)**

Wards affected: **All**

PART 1

1.1 Purpose:

The purpose of this report is to provide the Audit Committee with a final monitoring statement in respect of the Strategic Audit Plan for 2019/20 (this document is attached as **Appendix A**).

1.2 Recommendation:

It is recommended that the Audit Committee considers and notes the information set out in the Strategic Audit Plan Final Monitoring Statement, attached as **Appendix A**.

1.3 Council plan and policy framework

The work of Internal Audit and the Audit Committee covers all service responsibilities as identified within the Council Plan.

1.4 Information

Strategic Audit Plan 2019/20: Final Monitoring Statement

1.4.1 The Strategic Audit Plan for 2019/20 was presented to and approved by the Audit Committee at its meeting in March 2019. The Strategic Audit Plan helps to ensure that Internal Audit is able to meet its aims as an independent assurance function for the Authority and sets out Internal Audit's objectives (based on an assessment of risks and opportunities for the organisation).

1.4.2 The Strategic Audit Plan is supplemented with a detailed Annual Audit Plan, which sets out the key objectives for the audit reviews identified to take place during 2019/20. An interim monitoring statement was presented to the Audit Committee in November 2019 and it was agreed that a final outturn statement would be presented to the Audit Committee in May 2020 (subsequently rescheduled to July 2020 as May's meeting was cancelled), demonstrating performance against the Plan. A final monitoring statement, outlining progress against the Audit Plan for 2019/20, is attached as **Appendix A**. It takes each audit review area and associated key objectives, as agreed by Audit Committee, and notes the progress achieved.

1.4.3 During 2019/20, 39 audit assignments were programmed. One assignment, a grant certification, was not required during the year. 30 assignments (77%) were either complete or underway. Those audits not yet commenced have been risk assessed as part of Internal Audit's continuing rolling programme and have been included in the Strategic Audit Plan during 2020/21.

1.4.4 This variation in the original planned coverage has occurred for several reasons including a vacancy at Senior Auditor level, for which recruitment took much longer than anticipated, and a long-term sickness absence. These two items reduced resource by approximately 1.4 full time equivalent employees over our forecast in the Resource Plan. In addition, ten assignments have been undertaken following request by management, which were not included in the 2019/20 Plan. A successful recruitment to the Senior Auditor post has now taken place and the long-term sickness absence has ended.

1.4.5 We have also undertaken a range of ad-hoc requests / special investigations where required, in addition to supporting working groups in a programme assurance capacity. This is included in the 2019/20 Annual Opinion on the Framework of Governance, Risk Management and Control.

1.5 Decision Options:

It is recommended that the Audit Committee notes the information set out in the Strategic Audit Plan Final Monitoring Statement, attached as **Appendix A**.

There are no other options available in relation to this report.

1.6 Reasons for recommended option:

This recommendation will allow the Authority to operate in line with legislation, good practice and professional guidance.

1.7 Appendices:

Appendix A: Strategic Audit Plan 2019/20: Final Monitoring Statement

1.8 Contact officers:

Marc Oldham (Senior Auditor) Tel: 643 5711

1.9 Background information:

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author.

(a) Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2017 (P) Public Sector Internal Audit Standards
(b) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, February 2019 (P)
(c) Financial Regulations C.24 – C.35, Version 5a, September 2013 (P) Financial Regulations
(d) Internal Audit Charter, November 2017 (P)

(e) Strategic Audit Plan 2019/20, March 2019 (P) Strategic Audit Plan 2019/20
(f) Strategic Audit Plan 2018/19, March 2018 (P) Strategic Audit Plan 2018/19
(g) Internal Audit Reports & Briefing Notes prepared during 2019/20 (C)
(h) Corporate Strategic, Service Strategic and Operational Risk Registers (C)
(i) The Accounts and Audit Regulations 2015, April 2015 (P)
Accounts and Audit Regulations 2015

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

Effective internal audit is an essential part of the Authority's governance arrangements. Internal Audit examines the Authority's systems of internal control, and the economy, efficiency and effectiveness with which resources are deployed. The audit of the Authority's activities promotes good financial and non-financial governance and the importance of value for money. Effective control in these areas reduces the potential for financial loss through fraud, waste and inefficiency.

There are no financial implications arising from the recommendations set out in this report.

2.2 Legal

The Accounts and Audit Regulations 2015 require the Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The Public Sector Internal Audit Standards and related Local Government Application Note require that the Chief Internal Auditor should report periodically to senior management and the board on Internal Audit matters, including "performance relating to its plan".

2.3 Consultation/community engagement

The Strategic Audit Plan 2019/20 was prepared following consultation with: the Chief Executive; Head of Resources (Chief Finance Officer) and all Heads of Service before presentation to the Board (Audit Committee) for approval.

2.4 Human rights

There are no human rights issues arising from this report.

2.5 Equalities and diversity

There are no equality and diversity issues arising from this report.

2.6 Risk management

The risks associated with this report have been considered and discussed with the Senior Risk Advisor and will be managed in accordance with the North Tyneside Council risk process. The Strategic Audit Plan has been prepared following the assessment of risks facing the organisation, and those inherent in the areas proposed for review.

2.7 Crime and disorder

There are no specific crime and disorder issues arising from this report. The work of Internal Audit is a key strand in the Authority's counter-fraud arrangements, as set out in the Strategic Audit Plan.

2.8 Environment and sustainability

There are no environment and sustainability issues arising from this report.

Report author Kevin McDonald
Marc Oldham

Advice & Programme Assurance

Heading	Auditable Area	Description / Audit Objectives	Outturn
Advice, Contingencies & Assurance	• Advice & Guidance • Contingencies & Work Requests • Fraud & Special Investigations	Responding to ad-hoc queries and requests for advice; responding to requests for one-off audit assignments, where it is considered that audit involvement is necessary; responding to allegations of fraud (*see also proactive anti-fraud work in counter fraud & internal control and probity section below*); project assurance and assuring appropriate consideration has been given to internal control & governance issues when new systems are introduced.	**Complete** – continues into 2020/21. A number of requests for advice, guidance and support were received and towards the end of the year included work on the Authority's Covid-19 response including: • Volunteer Cash Handling • Business Grants
Programme Assurance	• New Systems / Methods of Service Delivery	Internal Audit will add value by providing assurance on aspects of the approach and work undertaken, and assessing the robustness of arrangements for benefits realisation. The systems, programmes and new initiatives to be supported will include providing assurance to the Senior Leadership Team on the Authority's change programme.	**Complete** – support has been provided to the following project Boards / Working Groups, and will continue into 2020/21 where necessary: • Children's Payment & Process Redesign Group • ICT Operations & Advisory Board • ICT Office 365 Project Board • ICT Performance and Prioritisation Board • ICT Disaster Recovery Project • Catering Services Chip & Pin • Cash Kiosk Replacement Programme

Audit and Assurance – Corporate and Cross Cutting

Heading	Auditable Area	Description / Audit Objectives	Outturn
Corporate and Cross Cutting	• Pre-Submission Review of Grant Claims	To undertake grant claim certification in respect of external funding regimes on behalf of the Council, to ensure that grant funding requirements have been met and grant claims are submitted in accordance with grant conditions, to maximise available grant income.	**Complete.** During 2019/20 grant claim certifications totalled £18m, and in each case the grant return was found to be compliant with the grant providers' audit requirements. Grants certified included: • Local Transport Plan - £4.2m • Growth Hub Funding for NECA / LEP - £0.4m • Troubled Families – £0.58m In addition, the Council's Carbon Reduction Commitment (CRC) return, which calculates the value of carbon credits the Council is required to purchase, has been certified with a value of £0.2m. During the year we were also asked to certify the following grants that were not on the Audit Plan. In each case the grant returns were also found to be compliant with the grant providers' audit requirements: • A1058 Coast Road Local Growth Fund (LGF) - £7.4m • Swans Business Centre Phase 3 (LGF) - £0.014m • Swans Quay Work Feasibility (LGF) £0.5m • A19 Employment Corridor (LGF) - £4.7m

Audit and Assurance – Corporate and Cross Cutting

Heading	Auditable Area	Description / Audit Objectives	Outturn
Corporate and Cross Cutting	• Annual Opinion	An annual opinion on the 'adequacy and effectiveness of the framework of governance, risk management and control' will be drafted and presented to the Chief Executive, Head of Resources (Section 151 Officer), Senior Leadership Team and Audit Committee, outlining the audit work performed during the year and summarising key themes. This will be timed to support production of the Council's Annual Governance Statement.	**Complete** – report to Audit Committee May 2019 and July 2020.
Corporate and Cross Cutting	• Follow up on Recommendations	Monitoring the implementation of Internal Audit recommendations, in consultation with the service areas which have received these recommendations. During the year, Internal Audit will review the process benefitting from shared learning within the Internal Audit and Risk Management Service and against best practice to ensure recommendations are followed up and reported upon to Audit Committee in a timely, efficient and effective manner.	**Complete** – continues into 2020/21.

Audit and Assurance – Corporate and Cross Cutting

Heading	Auditable Area	Description / Audit Objectives	Outturn
Corporate and Cross Cutting	• Governance and value for Money Reviews	To review whether appropriate internal controls exist within a sample of significant business arrangements within North Tyneside Council. Where it is possible to assess the economy, efficiency and effectiveness of specific aspects of these arrangements, this will also be undertaken. Areas to be reviewed under this heading in 2019/20 include: • Risk Management arrangements • Construction Partner in-sourcing • Section 106 / Section 278 arrangements • Treasury Management arrangements • Fundamental workforce workflows • Information Governance	**2018/19 Work Completed:** • Deprivation of Liberty Safeguards (Limited Assurance 1 high, 5 medium & 9 low priority recommendations) **Work Completed:** • Construction Partner (project assurance role) **Reviews underway:** • Section 106 / Section 278 • Risk Management • Examination of Capital Projects **Reviews reprogrammed to 2020/21:** • Information Governance (Implementation of GDPR audit was finalised during 2019/20) • Treasury Management • Fundamental workforce workflows

Audit and Assurance – Service Area Specific

Heading	Auditable Area	Description / Audit Objectives	Outturn
Children, Young People and Learning	• Primary & First Schools, Middle Schools and Secondary Schools	To assess, on a thematic basis, the application of controls associated with the discharge of responsibilities relating to delegated school budgets, within a sample of schools on a risk assessed basis.	**Reprogrammed** to 2020/21
	• Schools' Financial Value Standard (SFVS)	On behalf of the Head of Resources (Section 151 Officer), Internal Audit will co-ordinate Schools' Financial Value Standard submissions, for all of the Council's grant-maintained schools, and provide assurance to the Section 151 Officer relating to her annual report to the Department for Education.	**Complete** - work undertaken by Internal Audit ensured that all schools were able to submit their assessments by the statutory deadline of 31 March 2020. The Authority was subsequently advised by the Department for Education that an annual return was not required for the 2019/20 financial year.
Tyne Port Health Authority	• Tyne Port Health Authority	On behalf of North Tyneside Council, as the Accountable Body for the administration of Tyne Port Health Authority, to undertake the internal audit requirements associated with the annual Small Bodies Return for this entity. This will involve acting independently and on the basis of an assessment of risk, performing a selective assessment of compliance with relevant procedures and controls expected to be in operation during the financial year ending 31 March 2019. To determine an appropriate level of internal audit coverage in accordance with the body's needs, and on the basis of findings in the areas examined to summarise conclusions and report these in an appropriate form to the body.	**Complete**

Audit and Assurance – ICT

Heading	Auditable Area	Description / Audit Objectives	Outturn
ICT Page 312	• System Reviews	To determine whether the systems and procedures in operation are functioning satisfactorily and are in accordance with legislation and council policy. In particular, to determine whether: • The systems comply with good practice and all legal, statutory and regulatory body requirements, and meet business need; • All transactions are completely and accurately recorded and traceable; • Access to information and facilities is controlled and restricted to authorised users according to their needs; • The potential for fraud and error are minimised; • The systems are effectively administered and supported; • All staff using the systems have been correctly trained to the level that will allow them to properly fulfil their duties; • The systems are continually available during working hours; • The systems provide complete and accurate management information; and • Upgrades to the systems are properly resourced and managed to meet clearly stated and agreed business objectives. For 2019/20, specific ICT audit coverage will be prioritised in the following areas: • Accuserv System (Construction Group system) • Payment Card Industry Data Security Standards (PCIDSS) Compliance • Office 365 & SharePoint • Business Continuity Planning / Disaster Recovery • Leisure Management System • Customer Relationship Management System • Email • Internet	**2018/19 work completed:** • Implementation of GDPR (Significant Assurance – 6 medium & 15 low priority recommendations) • Network Management (Significant Assurance - 7 medium & 7 low priority recommendations) **Work completed:** • Leisure Management (Significant Assurance – 2 medium & 9 low priority recommendations) • Customer Relationship Management (Significant Assurance – 4 medium & 12 low priority recommendations) • Email (Significant Assurance – 1 medium & 3 low priority recommendations) • Internet (Significant Assurance – 1 medium & 3 low priority recommendations) **Work reprogrammed to 2020/21:** • Office 365 & SharePoint – (SharePoint has not yet been implemented so the audit will be rescheduled to the next financial year. **NB,** we continue to support the implementation through our programme assurance work) • Accuserv System • Business Continuity Planning / Disaster Recovery • PCIDSS

Audit and Assurance – ICT

Heading	Auditable Area	Description / Audit Objectives	Outturn
ICT	• Public Service Network (PSN) Compliance	To undertake the annual independent review of the Authority's compliance with the Public Service Network Code of Connection, to support the Authority's submission to the Public Services Network Authority for accreditation.	**Complete.**

Counter Fraud and Internal Control & Probity

Heading	Auditable Area	Description / Audit Objectives	Outturn
Counter Fraud	• Pro-active anti-fraud work	To undertake pro-active anti-fraud and corruption work (including participation in the Cabinet Office's National Fraud Initiative and performing internal data matching exercises); and to raise the awareness of counter fraud and corruption measures across the organisation.	**Complete –** continues into 2020/21

Counter Fraud and Internal Control & Probity

Heading	Auditable Area	Description / Audit Objectives	Outturn
Internal Control & Probity	• Core Financial Systems: ○ Business Rates; ○ Council Tax; ○ Payroll; ○ Creditor Payments; ○ Cash and Bank; ○ Debt and Income Management; ○ Housing Rent Assessment & Collection; ○ Housing & Council Tax Benefit	The core financial systems encompass the main ways in which the Authority either pays money out (Creditor Payments, Payroll, Housing & Council Tax Benefit) or receives monies in (Business Rates, Council Tax, Debt and Income Management, Rent Assessment and Collection). Each of these areas will be given some audit coverage in each financial year, with emphasis dictated by the organisation's risk profile determined on an annual basis.	**Work completed:** • Business Rates (Significant Assurance – 2 low priority recommendations) • Debt and Income Management (Limited Assurance – 8 medium and 6 low recommendations) • Council Tax (Significant Assurance – 1 medium priority recommendations) • Cash and Bank (Limited Assurance 6 medium and 15 low priority recommendations) • Housing Rent Assessment & Collection (Full Assurance - no recommendations) **Work underway:** • Creditor Payments • Housing & Council Tax Benefit • Payroll

North Tyneside Trading Companies

Heading	Auditable Area	Description / Audit Objectives	Outturn
North Tyneside Trading Companies	• Governance Flows	The Internal Audit service will be performing some specific audit work in respect of North Tyneside Council's trading companies. An assessment of governance flows between entities within the 'accounting group boundary' will be undertaken as part of this work	**Underway**

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North Tyneside Council
Report to Audit Committee
Date: 29 July 2020

ITEM 12
Title: Internal Audit Charter

Report from Service Area: **Resources**

Report Author: **Kevin McDonald, Acting Chief Internal Auditor (Tel: 643 5738)**

Wards affected: **All**

PART 1

1.1 Purpose:

The purpose of this report is to present Audit Committee with an updated Internal Audit Charter, in accordance with the requirements of the Public Sector Internal Audit Standards (April 2017) and the related Local Government Application Note.

1.2 Recommendation:

Audit Committee is asked to agree the updated Internal Audit Charter which is attached as **Appendix A** to this report, and which is a requirement of the Public Sector Internal Audit Standards.

1.3 Council plan and policy framework

The work of Internal Audit and the Audit Committee covers all service responsibilities as identified within the Council Plan.

1.4 Information

1.4.1 It is a statutory requirement for all relevant authorities (including North Tyneside Council) to "undertake an effective internal audit to evaluate the effectiveness of…risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."

1.4.2 The Institute of Internal Auditors (IIA) has published an International Professional Practices Framework (IPPF) which includes certain mandatory elements with which every Internal Audit service provider must comply. For the Public Sector in the UK, 'Relevant Internal Audit Standard Setters' have been designated for central government, the NHS and local government. The role of these standard setters is to adopt a common set of Public Sector Internal Audit Standards (PSIAS) which encompass the mandatory elements issued by the IIA and any additional requirements and interpretations for the UK public sector, whilst maintaining the integrity of the text of the mandatory elements of the IPPF.

1.4.3 In April 2017, the ‘Relevant Internal Audit Standard Setters’ published updated specific Public Sector Internal Audit Standards, applying the IIA International Standards to the UK Public Sector. These standards apply to all parts of the public sector (local government, central government and the NHS). For local government, the Chartered Institute of Public Finance and Accountancy (CIPFA) has been designated as ‘the relevant standard setter’. To support the PSIAS in local government, CIPFA, as relevant local government standard setter, have published a Local Government Application Note which accompanies and underpins the mandatory requirements of the full PSIAS. The PSIAS and Local Government Application Note together comprise the ‘public sector internal auditing standards’ which are necessary to undertake the effective internal audit required by the Accounts and Audit Regulations 2015.

1.4.4 All local government Internal Audit providers in the UK are expected to comply fully with the PSIAS. It is also a requirement that the degree of conformance to the standards is assessed and reported to ‘senior management’ and the ‘board’ of the organisation. The Audit Committee fulfils the role of the ‘board’ in North Tyneside Council. The PSIAS include a requirement that a specific Internal Audit Charter is adopted by every relevant authority, which is approved by the ‘board’ on a periodic basis.

1.4.5 The Internal Audit Charter was approved by Audit Committee in November 2017. The Internal Audit Charter has been reviewed to ensure that the exact requirements of the PSIAS continue to be met and the proposed Internal Audit Charter is attached as **Appendix A**.

1.5 Decision Options:

Audit Committee is asked to approve the updated Internal Audit Charter which is attached as **Appendix A** to this report, and which is a requirement of the Public Sector Internal Audit Standards.

There are no other options available in relation to this report.

1.6 Reasons for recommended option:

This recommendation will allow the Authority to operate in line with legislation, good practice and professional guidance.

1.7 Appendices:

Appendix A: Internal Audit Charter (July 2020)

1.8 Contact officers:

Kevin McDonald (Acting Chief Internal Auditor) Tel: 643 5738

1.9 Background information:

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author.

(a) Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2017 (P) Public Sector Internal Audit Standards
(b) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, February 2019 (P)
(c) Internal Audit Charter, November 2017 (P)
(d) The Accounts and Audit Regulations 2015, April 2015 (P) Accounts and Audit Regulations 2015

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

Effective internal audit is an essential part of the Authority's governance arrangements. Internal Audit examines the Authority's systems of internal control, and the economy, efficiency and effectiveness with which resources are deployed. The audit of the Authority's activities promotes good financial and non-financial governance and the importance of value for money. Effective control in these areas reduces the potential for financial loss through fraud, waste and inefficiency.

There are no financial implications arising from the recommendations set out in this report.

2.2 Legal

The Accounts and Audit Regulations 2015 require the Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The Public Sector Internal Audit Standards and related Local Government Application Note require that the Chief Internal Auditor should prepare and periodically review an Audit Charter for approval by the Board, which is Audit Committee.

2.3 Consultation/community engagement

This report advises Audit Committee, as the recognised 'board' under the Public Sector Internal Audit Standards, of the Internal Audit Charter, in conformance with those standards. The views of Audit Committee will be considered during presentation of this item at the Audit Committee meeting.

2.4 Human rights

There are no human rights issues arising from this report.

2.5 Equalities and diversity

There are no equality and diversity issues arising from this report.

2.6 Risk management

There are no risks identified with this Report.

2.7 Crime and disorder

There are no specific crime and disorder issues arising from this report. The work of Internal Audit is a key strand in the Authority's counter-fraud arrangements, as set out in the Strategic Audit Plan.

2.8 Environment and sustainability

There are no environment and sustainability issues arising from this report.

Report author Kevin McDonald

North Tyneside Council

Northumberland County Council

Shared Internal Audit Service

Internal Audit Charter

July 2020

Contents

1 Introduction and Purpose of the Internal Audit Charter

1.1 The Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013 and were revised on 1 April 2017. The PSIAS and associated Local Government Application Note are the mandatory standards with which every Internal Audit provider delivering such services in local government is required to comply. PSIAS require that each local authority has an internal audit charter in place to define the purpose, authority and responsibility of Internal Audit.

1.2 The Internal Audit Charter must be consistent with the Definition of Internal Auditing and the Code of Ethics which form part of the Standards. The Internal Audit Charter must also be consistent with the Attribute Standards which address the characteristics of organisations performing internal audit activities, and with the Performance Standards which provide quality criteria against which the performance of these activities can be evaluated.

1.3 The PSIAS require that the Internal Audit Charter is approved by "senior management" and the "board". At both North Tyneside Council and Northumberland County Council, the Audit Committee fulfills the role of the "board". "Senior Management" refers to North Tyneside Council's Senior Leadership Team and Northumberland County Council's Executive Management Team.

1.4 The PSIAS also uses the term "Chief Audit Executive", referring to the person who has responsibility for managing the internal audit activity in accordance with the Internal Audit Charter and associated mandatory requirements. Within North Tyneside Council and Northumberland County Council, this is the Chief Internal Auditor.

1.5 This document seeks to codify existing practice and arrangements governing the work of Internal Audit within North Tyneside Council and Northumberland County Council. The Internal Audit Charter confirms:

- the objectives of Internal Audit;
- the position of Internal Audit within the organisation;
- the scope of Internal Audit activity; and
- Internal Audit's authority and right of access to all records.

1.6 The Internal Audit Charter complies fully with each partner organisation's Financial Regulations / Finance and Contract Rules, and the provisions on Internal Audit contained therein.

2 Role and Objectives of Internal Audit

2.1 The Public Sector Internal Audit Standards define internal auditing as '*an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to* *evaluate and improve the effectiveness of risk management, control and governance processes.*'

2.2 Internal Audit assists management in delivering the objectives of the organisation by assessing exposure to risk and recommending, where appropriate, practical improvements to the control environment. It objectively examines, evaluates and reports on the control environment in place as a contribution to the proper, economic, efficient and effective use of resources.

2.3 Internal Audit has a vital role in providing assurance to the organisation and evaluating the governance arrangements in place. Internal Audit must provide an overall annual opinion on the adequacy and effectiveness of the organisation's framework of governance, risk management and control. This overall opinion is supported by individual audit assignments which are undertaken in accordance with the Strategic Audit Plan. Internal Audit is responsible for completing sufficient work as part of the Strategic Audit Plan, to evidence and support the overall annual opinion. It is important to emphasise with regard to the annual opinion, that Internal Audit's responsibilities extend to the entire framework of governance, risk management and control and is not restricted to financial controls.

2.4 In addition to performing internal audits of existing systems, Internal Audit has a significant role in providing an advice and consultancy role for the organisation. This includes advising on controls during the introduction of new systems, to minimise the risk of weaknesses in new systems and strengthens the control environment. This activity comprises 'consulting activity' under the PSIAS (see section 7).

2.5 Internal Audit performs investigations into suspected fraud or irregularity. It is important that the organisation can call upon Internal Audit resource to respond quickly to assess the extent of potential problems and to secure evidence if required. Internal Audit will also review weaknesses in control to establish the reasons for the fraud / irregularity occurring and recommend improvements in the control environment to minimise the risk of reoccurrence. At Northumberland County Council, there is a separate counter fraud team to whom Internal Audit may refer counter fraud matters.

3 Role and Responsibilities of the Board

3.1 The responsibilities of the Board as detailed in the PSIAS are:

(i) Approving the Internal Audit Charter.
(ii) Approving the annual risk based Internal Audit plan and any amendments to the plan during the course of the year.
(iii) Approving the Internal Audit budget and resource plan and establishing that there are sufficient resources with regard to the provision of an annual audit opinion (See 2.3 above).
(iv) Considering communications from the Chief Internal Auditor on Internal Audit performance relative to its plan and other matters.

(v) Receiving annual confirmation from the Chief Internal Auditor that Internal Audit is organisationally independent.
(vi) Considering the results of the quality assurance and improvement programme from the Chief Internal Auditor.

4 Role and Responsibilities of Senior Management

4.1 The responsibilities of Senior Management as detailed in the PSIAS are:

(i) Providing input to the annual Internal Audit plan.
(ii) Actioning Internal Audit reports and follow-up reports.
(iii) Receiving the results of the quality assurance and improvement programme (see section 10) from the Chief Internal Auditor.

4.2 In addition, the organisation's chief officers – those at Head of Service / Director level and above – are responsible for ensuring that appropriate and adequate internal controls exist, **independently of any Internal Audit activity**. Chief officers must establish sound arrangements for planning, appraising, authorising and controlling their operations in order to achieve continuous improvement, economy, efficiency and effectiveness; and for achieving their financial performance targets.

4.3 When an Internal Audit report is issued, it is for management to decide whether to accept and implement audit findings and recommendations, subject to adherence to Council policy and Financial Regulations. Any decision to reject a formal recommendation must be justified in writing. It is the Chief Internal Auditor's duty to consider taking matters to a higher level of management, or to the Audit Committee, if it is felt that a risk should not (or need not) be borne.

5 Objectivity and Independence

5.1 Internal Audit must be, and must be seen to be, independent. To ensure this, a number of arrangements are in place to ensure that Internal Audit operates within a framework which allows:

- unrestricted access to the board and senior management;
- impartial and unbiased opinions;
- reporting in its own name; and
- segregation from line operations.

5.2 It is a requirement of the PSIAS that the Chief Internal Auditor reports 'to a level within the organisation that allows the Internal Audit activity to fulfil its responsibilities.' The PSIAS interprets organisational independence as being effectively achieved when the Chief Internal Auditor reports functionally to the board. Within North Tyneside Council and Northumberland County Council, these requirements are achieved by:

- the Chief Internal Auditor reporting functionally to the Audit Committee at each partner organisation. The Chief Internal Auditor reports functionally to Audit Committee in his own name and has the right of free and unfettered access to the Audit Committee and Chair of Audit Committee.
- the Chief Internal Auditor reporting operationally to a member of each partner organisation's senior management team. At North Tyneside Council, the Chief Internal Auditor is line managed by the Head of Resources, who is a member of the Senior Leadership Team. At Northumberland County Council, the Chief Internal Auditor is currently line managed by the Service Director: Corporate Assurance.

5.3 In line with the requirements of the PSIAS, the Chief Executive and the Chair of Audit Committee will be invited to provide input / feedback to the annual performance review of the Chief Internal Auditor. The Chief Internal Auditor will also confirm the organisational independence of Internal Audit to each partner organisation's Audit Committee at least annually.

5.4 In addition, the Chief Internal Auditor has free and unfettered access to the Chief Executive, Chief Finance Officer (s151 Officer), and Monitoring Officer at each partner organisation.

5.5 Internal Audit shall have no responsibilities over the operations which it audits other than the furnishing of recommendations to relevant management, and advice to management on risks and controls. Where the span of management control of the Chief Internal Auditor dictates, separation of duties is enforced within the team to ensure sufficient independence. Any Internal Audit work undertaken on any area for which the Chief Internal Auditor is responsible (for example risk management) will be led by, issued by and in the name of the Group Assurance Manager.

5.6 Internal Auditors will complete an annual declaration confirming compliance with rules on independence, conflicts of interest and the offer and / or acceptance of gifts and hospitality. In compiling the Strategic Audit Plan it will be ensured that this recognises and addresses potential conflicts of interest, in particular, by ensuring that staff do not undertake an audit assignment for at least one year in an area where they have had previous operational roles.

5.7 All Internal Auditors will be appraised of the "Definition of Internal Auditing", the "Code of Ethics" and the "Standards" and will work in accordance with these requirements. This will form the basis of the performance appraisal for each Internal Auditor.

5.8 Internal auditors will perform work with due professional care, competence and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review. Internal auditors will have a continuing duty to develop and maintain their professional skills, knowledge and judgement based on appropriate training, ability, integrity, objectivity and respect.

5.9 When performing their work, internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest. They will ensure that any suspicions of fraud, corruption or improper conduct are promptly reported to the Chief Internal Auditor in accordance with the procedures within each partner organisation.

5.10 Internal auditors will treat the information they receive in carrying out their duties as confidential. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so.

6 Scope and Authority

6.1 Each partner organisation's s151 Officer is designated by the organisation as the officer responsible for making proper arrangements for the administration of the organisation's financial affairs. In addition, the Accounts and Audit Regulations 2015 require that each organisation "must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."

6.2 The Accounts and Audit Regulations 2015 make it a legal requirement that any officer or elected member of a relevant local authority must, if required to do so for the purposes of internal audit:

a) make available such documents and records (including those in an electronic form); and
b) supply such information and explanations

as are considered necessary by those conducting the internal audit. This Internal Audit Charter affirms these statutory rights of access for Internal Audit.

6.3 These rights of access are also enshrined within each partner organisation's Financial Regulations / Finance and Contract Rules. These include the provision that Internal Audit has the authority to:

- access the Council's premises at all reasonable times;
- access all records, documents, correspondence and control systems;
- receive any information and explanation considered necessary concerning any matter under consideration;
- require any employee of the authority to account for cash, stores or any other authority asset under his or her control; and
- directly access the head of paid service, Chief Executive, the Cabinet / Executive, Audit Committee and / or other appropriate committees
- access financial records belonging to third parties, such as contractors, organisations in receipt of grant funding, and partnering arrangements in any scheme for which the organisation has responsibility as lead or accountable body.

6.4 In turn, the Financial Regulations / Finance and Contract Rules place a responsibility on all chief officers to ensure that Internal Audit is given access at all reasonable times to such premises, personnel, documents and assets that Internal Audit considers necessary for the purposes of its work. Chief officers are also charged with:

- ensuring that Internal Audit is provided with any information and explanations that it may seek in the course of its work;
- considering and responding promptly to recommendations in audit reports; and
- ensuring that any agreed actions arising from audit recommendations are carried out in a timely and efficient fashion.

6.5 The work of Internal Audit embraces the whole internal control system of the organisation, including all of its activities, funded from any source. Internal Audit's remit includes:

- assessing if operations are being carried out as planned, and if objectives / goals are being achieved;
- assessing the adequacy of systems established to ensure compliance with policies, plans, procedures, laws and regulations, i.e. rules established by either the management of the organisation or externally;
- assessing the completeness, reliability and integrity of information, both financial and operational;
- assessing the extent to which the organisation's assets, data and interests are properly accounted for and safeguarded from losses of all kinds, including fraud, corruption, waste, extravagance, abuse, ineffective management and poor value for money; and
- assessing the economy, efficiency and effectiveness with which resources are deployed.

6.6 The Financial Regulations / Finance and Contract Rules place a duty on chief officers to ensure that, where existing financial systems are proposed to be changed or new systems established, the agreement of the s151 Officer and Chief Internal Auditor is obtained before implementing any changes.

6.7 The counter fraud policy at each partner organisation will require that Internal Audit is informed in the event that fraudulent activity or financial irregularity is suspected or confirmed. Internal Audit or counter fraud officers will co-ordinate the investigation of alleged financial irregularity in accordance with the respective organisation's counter fraud policy, including liaison with the Police.

7 Consulting Activity

7.1 The PSIAS define consulting services as:
"Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without

the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training."

7.2 The Strategic Audit Plan, agreed by the Audit Committee in March each year, will identify any assignments which fall within the above definition. In addition, in terms of the requirements of the PSIAS, any significant additional consulting services identified during the course of the year will be approved by the Audit Committee prior to accepting the assignment. Within North Tyneside Council and Northumberland County Council, it is considered appropriate to define "significant" as any single assignment which is estimated to require a resource of 15 days or more.

8 Planning

8.1 Internal Audit prepares a Strategic Audit Plan, setting out the scope of work to be undertaken within each partner organisation each year. This detailed plan is prepared in consultation with the Chief Executive, s151 Officer, senior management, and is approved by the Audit Committee. Proposed coverage is also shared with the relevant Cabinet / Portfolio holder and the external auditor.

8.2 Internal Audit must however be independent in its planning and operation. In producing the Strategic Audit Plan, the Chief Internal Auditor will have an unrestricted range of coverage of the Council's operations. The Chief Internal Auditor will have freedom to determine the priorities of Internal Audit, following consultation with the senior management of the organisation.

8.3 The Strategic Audit Plan will provide a broad scope of each audit assignment, together with the resources required and the respective priorities. The Plan will be kept under review to identify any amendment needed to reflect changing priorities and emerging risks. It will be flexible, containing an element of contingency to accommodate assignments, fraud investigations and staff vacancies which could not be reasonably foreseen. If the Audit Committee considers it appropriate, an appropriate budget of time will be included to cover a defined number of assurance assignments relating to specific areas of assurance requested by the Audit Committee. In such cases, the Chief Internal Auditor will be responsible for defining the scope and coverage of this work to ensure that this remains within the definition and remit of Internal Audit activity.

8.4 The Strategic Audit plan, once set, will be compared to resource availability and where there is an imbalance between the two, the Audit Committee will be informed of this and proposed solutions. The Local Government Application Note which supports the PSIAS on which this Internal Audit Charter is based, makes clear that significant matters that jeopardise delivery of the plan, or require changes to the plan, should be identified, addressed and reported to the board.

8.5 In determining the resourcing of Internal Audit, the staffing of the Internal Audit Service will be kept under annual review. As a minimum, resourcing will ensure that the Service is able to comply with the requirements of the Public Sector Internal Audit Standards. Resourcing required will be identified by the Chief Internal Auditor, ensuring that as a minimum resources are sufficient to provide a level of coverage necessary to give an annual evidence based opinion on the adequacy and effectiveness of the organisation's framework of governance, risk management and control. Local factors within each organisation covered by the Chief Internal Auditor will determine this minimum level of coverage. A risk based audit plan will be prepared which reflects the Chief Internal Auditor's view about the level of audit coverage and optimum resources to be devoted to Internal Audit.

9 Reporting

9.1 At the end of every Internal Audit assignment, a draft audit report will be issued to the relevant audit client, as identified in the project brief prepared at commencement of the assignment and agreed with the audit client. The project brief will set out clearly the circulation of the report and Internal Audit will normally observe this circulation list very closely.

9.2 Should the Chief Internal Auditor consider that a matter of governance or control is so serious as to warrant communication to other officers of the organisation, or to an external agency such as the Police, the Chief Internal Auditor has the authority to do so. Accordingly the Chief Internal Auditor will have direct access to, and freedom to report to, all senior management and elected members, and any external agency which, in his professional judgement, he considers appropriate.

9.3 The organisation's management is expected to implement all accepted recommendations within a reasonable timescale, determined by management and agreed with Internal Audit at the end of the audit assignment. Each audit will be followed up to assess the extent to which this has happened. Summary information will be reported to the respective senior management team and Audit Committee on a periodic basis.

9.4 On an annual basis the Chief Internal Auditor is required to consider the results of Internal Audit work performed during the year and to prepare an annual opinion on the adequacy and effectiveness of the framework of governance, risk management and control. This opinion is presented to and considered by each partner organisation's Audit Committee in conjunction with the Annual Governance Statement, each year.

10 Quality Assurance and Improvement Programme

10.1 Quality assurance procedures have been in place within the Internal Audit team for many years as part of the team's adherence to the relevant professional standards prevailing at that time. The PSIAS introduced a requirement to develop a 'quality assurance and improvement programme' (QAIP). The PSIAS recognised that the new requirement should not add significantly to existing quality requirements.

10.2 The Chief Internal Auditor will codify all existing qualitative measures used to manage effectiveness of Internal Audit activity under one QAIP. In addition, the QAIP will include any new qualitative measures required by the PSIAS, such as the requirement for an external assessment at least once in every five years. The results of the QAIP will be reported to senior management and the board as required by the PSIAS.

10.3 As required by the PSIAS, the Chief Internal Auditor will discuss with senior management and the board the qualifications and independence of the independent external assessor. Each partner organisation will identify an appropriate sponsor for this process.

IA/KM
July 2020

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