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North Tyneside Council

Audit Committee

10 November 2020

Wednesday, 18 November 2020 commencing at 6.00 pm.

The meeting will be held remotely via Microsoft Teams and Live Streamed on the Authority's YouTube Channel.

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 and/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 29 July 2020.	**5 - 8**
4.	**Audit Quality Inspection Report (Financial Reporting Council)** To give consideration to an update on the findings of the recent inspection of the seven major auditing firms.	**9 - 44**
5.	**2019/20 Annual Financial Report** To give consideration to the 2019/20 Audited Annual Financial Report.	**45 - 282**
6.	**Annual Governance Statement** To give consideration to a report which sets out the outcome of the review of the Authority's system of internal control.	**283 - 320**

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Agenda Item		Page
7.	**Key Outcomes from Internal Audit Reports issued between 2 July 2020 and 2 November 2020** To give consideration to a report which provides the outcomes of the Internal Audit Reports issued between July and November 2020.	**321 - 336**
8.	**Exclusion Resolution** The Committee will be requested to pass the following resolution: Resolved that under Section 100A (4) of the Local Government Act 1972 (as amended) and having applied a public interest test as defined in Part 2 of Schedule 12A of the Act, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Act.	
9.	**Corporate Risk Management Summary Report** To consider a report on the latest position in respect of the Authority's corporate risks which were reported to Cabinet on 3 August 2020.	**337 - 400**
10.	**Strategic Audit Plan 2020/21 - Interim Monitoring Statement** To give consideration to the half yearly monitoring statement in respect of the Strategic Audit Plan for 2020/21	**401 - 414**

Circulation overleaf …

Members of the Audit Committee

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

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Audit Committee

Wednesday, 29 July 2020

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

AC/29/20 Apologies for Absence

There were no apologies for absence submitted.

AC/30/20 Declarations of Interest and Dispensations

There were no Declarations of Interest or Dispensations reported.

AC/31/20 Minutes

Resolved that the minutes of the meeting of the Committee held on 20 November 2019 be confirmed as a correct record and be signed by the Chair.

AC/32/20 Certification of Claims and Returns - Annual Report 2018/19

Consideration was given to a report which summarised the results of work carried out by the External Auditors in relation to the Authority's claims and returns for 2018/19. It was explained that this work covered the Council's housing benefit claim in accordance with the Housing Benefit Assurance Process issued by the Department for Work and Pensions and the provision of the Council's Teachers' Pensions End of Year Certificate.

Clarification was sought on how the Authority could be assured that the works carried out on its behalf were robust. It was explained that the report was entirely appropriate and that there is a regulator which published reports on the work of the firms carrying out works on behalf of local authorities. It was acknowledged that there was still more work to be done to improve matters.

Resolved that the report be noted

AC/33/20 Audit Planning Report for the Year Ended 31 March 2020

Consideration was given to a report which reviewed the proposed approach to and the scope for the 2019/20 audit. It was explained that the approach had been updated to take account of the impact that Covid-19 would have on the audit.

The report provided an overview of the 2019/20 audit strategy and highlighted a number of areas of risk or focus along with the risk identified and whether this had changed from last year.

Reference was made to the risks associated with the Authority's land and buildings and the revised guidance issued by the Royal Institution of Chartered Surveyors (RICS) in relation to valuations of land and buildings.
Reference was also made to the Authority giving consideration as to whether Group Financial Statements were appropriate. It was explained that the Authority was not required to produce them at present.

Resolved that the report be noted.

AC/34/20 Audit Market Reform and Revised Auditing Standards and Guidance

Consideration was given to a report which set out the outcomes of a number of key regulatory and independent reviews as at January 2020. The report also set out the potential outcomes of the regulatory reviews and the potential implications for the Committee, the Authority and auditors. It was explained that the implementation of some of the recommendations required parliamentary time to be set aside before any changes could be made.

Resolved that the report be noted.

AC/35/20 2019-20 Statement of Accounts - Draft

Consideration was given to a report which provided an update in respect of the closure of the 2019/20 accounts. On the 3 April 2020 the Ministry of Housing, Communities and Local Government had confirmed that under the Accounts and Audit (Coronavirus) Amendments Regulations 2020 the statutory deadlines had been amended. The publication date for audited accounts had therefore moved from 31 July 2020 to 30 November 2020. It was explained that the final audited accounts would be presented for sign off to the meeting of the Committee to be held on 18 November 2020.

A copy of the Annual Financial Report 2019/20 was submitted with the papers for the meeting. It was explained that the report was in a draft format and subject to audit. Members attention was drawn to a number of the notes to the financial statements including a reduction in the gains linked to assets and the pension fund valuation

Clarification was sought on how the auditors verified the references to cash and cash equivalents. It was explained that third party confirmation was obtained along with reconciliations and an examination of individual transactions.

Resolved that the work outlined in the report in relation to the closure of the 2019/20 accounts be noted.

AC/36/20 Annual Governance Statement - Update

The Committee was advised that the Annual Governance Statement (AGS) explained how the Authority delivered good governance and reviewed the effectiveness of the arrangements in place. Details of the approach in place for the compilation of the 2019/20 Statement were outlined.

It was explained that due to the impact of the Covid-19 pandemic changes had been made nationally to the deadlines for the publishing and auditing of the accounts. It was noted that three new risks had been identified for inclusion in the AGS namely Covid-19 recovery, Finance and Resources and Workforce.

Resolved that (1) the update on the latest review of the Authority's action plan agreed as part of the 2018/19 Annual Governance Statement be noted;
(2) the progress made in compiling the evidence for the 2019/20 Annual Governance Statement be noted; and
(3) the potential inclusion in the 2019/20 Annual Governance Statement of three new risks including the controls in place be noted.

AC/37/20 Audit Market Reform and Revised Auditing Standards and Guidance

Consideration was given to a report from the Chief Internal Auditor on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and controls. It was noted that, under the Public Sector Internal Audit Standards, the Chief Internal Auditor was required to provide an annual opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control.

It was reported that, overall, the internal audit section had found that, in the areas inspected in 2019/20, internal control systems had been effective. In addition a number of areas of good practice had been identified and, where necessary, improvement plans had already been put in place by management, in consultation with internal audit, for those areas which required improvement.

It was the opinion of the Chief Internal Auditor that the Authority's internal control systems, in the areas audited, were satisfactory. This was a positive assessment of the Authority's control environment and reflected favourably on the organisation's governance arrangements.

Members also sought assurances in relation to the number of planned productive days which had been lost over the year. Reference was also made to the audit completed last year in relation to deprivation of liberty services and the work undertaken by the department to reduce the backlog.

Resolved that the Chief Internal Auditor's opinion, that the overall adequacy and effectiveness of the Authority's framework of Governance, Risk Management and Control in 2019/20 is satisfactory be noted.

AC/38/20 Key Outcomes from Internal Audit reports Issued between 1 November 2019 and 1 July 2020

Consideration was given to a report which set out the key outcomes of internal audit reports issued between 1 November 2019 and 1 July 2020. 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 within the Authority.

Clarification was sought in relation to the review of the email system and the Authority's move to Office 365.

Resolved that the key findings, good practice identified and the management action taken in response to Internal Audit Reports be noted.

AC/39/20 Strategic Audit Plan 2019/20 Final Monitoring Statement

Consideration was given to a report which provided the final monitoring statement in respect of the 2019/20 Strategic Audit Plan. The report took each audit review area and looked at the key objectives and the progress made in relation to the implementation of the recommendations.

During 2019/20 39 audit assignments had been programmed of which 30 had been completed or were underway. The reasons for the variation in the audit coverage were outlined together with the process for risk assessing the outstanding assignments.

Resolved that the Strategic Audit Plan Final Monitoring Statement be noted.

AC/40/20 Internal Audit Charter

Consideration was given to a report which provided an update on the Internal Audit Charter as required under the Public Sector Internal Audit Standards and the Local Government Application Note.

Resolved that the report be noted.

AC/41/20 Exclusion Resolution

Resolved that under Section 100A (4) of the Local Government Act 1972 (as amended) and having applied a public interest test as defined in Part 2 of Schedule 12A of the Act, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Act.

AC/42/20 Update on the Strategic Audit Plan 2020/21

Consideration was given to a report which provided an update on the Strategic Audit Plan for 2020/21 taking account of the impact of the Covid-19 pandemic on audited entities and any changes which needed to be made as a result.

Resolved that the Strategic Audit Plan 2020/21 and the need to keep risks and the associated impact on assurance under review be noted.

ITEM 4

Title: Audit Quality Inspection Report (Financial Reporting Council)

North Tyneside Council
Report to Audit Committee
Date: 18 November 2020

Report from Service:	Finance	
Report Author:	Janice Gillespie, Head of Resources	**(Tel: 643 5701)**
Wards affected:	All	

PART 1

1.1 Purpose:

1.1.1 The Financial Reporting Council (FRC) is the independent body responsible for monitoring the quality of Major Local Audits, as defined by the Local Audit (Professional Qualification and Major Local Audit) Regulations 2014. This monitoring is performed by the FRC's Audit Quality Review ('AQR') team. The reviews of individual Major Local Audit engagements are intended to contribute to safeguarding and promoting improvement in the overall quality of Local Audit auditing in the UK. Audit firms are required to audit the financial statements and Value for Money ("VfM") arrangements, conclusions and exercise their statutory reporting powers, as required, in accordance with the Local Audit and Accountability Act 2014.

1.1.2 The FRC recently published the principal findings arising from the 2019/20 inspection of the seven audit firms completing major local audits in England ("the firms") carried out by AQR. The inspection was conducted between December 2019 and September 2020 ("the time of our inspection"). The external audit of this Authority's 2019/20 audit was chosen as part of that inspection.

1.1.3 It is proposed that Ernst Young provide a verbal update to the Committee on the outcome of the inspection.

1.2 Recommendation:

1.2.1 It is recommended that the Audit Committee note the outcome of the Audit Quality Review

1.3 Forward plan:

1.3.1 This report is not included within the annual workplan for the Audit Committee, however due to its relevance it was considered important to share the findings with the Committee.

1.4 Council plan and policy framework:

1.4.1 The outcome covers all the service responsibilities as identified within the Council Plan.

1.5 Information:

1.5.1 The Financial Reporting Council (FRC) is the independent body responsible for monitoring the quality of Major Local Audits, as defined by the Local Audit (Professional Qualification and Major Local Audit) Regulations 2014. This monitoring is performed by the FRC's Audit Quality Review ('AQR') team. The reviews of individual Major Local Audit engagements are intended to contribute to safeguarding and promoting improvement in the overall quality of Local Audit auditing in the UK. Audit firms are required to audit the financial statements and Value for Money ("VfM") arrangements, conclusions and exercise their statutory reporting powers, as required, in accordance with the Local Audit and Accountability Act 2014.

1.5.2 The FRC recently published the principal findings arising from the 2019/20 inspection of the seven audit firms completing major local audits in England ("the firms") carried out by AQR. The inspection was conducted between December 2019 and September 2020 ("the time of our inspection"). The external audit of this Authority's 2019/20 audit was chosen as part of that inspection.

1.6 Decision options:

The options available are:

(a) To accept the recommendations made in section 1.2.1; or
(b) To reject the recommendations made within this report.

1.7 Reasons for recommended option:

The Committee can note the FRC's view of the performance of the External Auditor.

1.8 Appendices:

Appendix A – Published FRC Report

1.9 Contact officers:

Janice Gillespie – Head of Resources – Tel: 643 5701

1.10 Background information:

N/A

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

There are no Legal Implications arising from this report.

2.3 Consultation / community engagement

The Chair of Audit Committee has been consulted on the provision of this report.

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 are no risk management issues arising from this report.

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.

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Financial Reporting Council

MAJOR LOCAL AUDITS

AUDIT QUALITY INSPECTION

OCTOBER 2020

The FRC

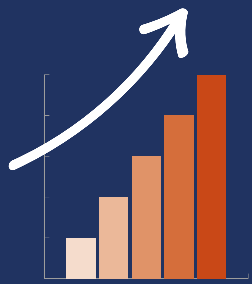
Our purpose is to serve the public interest by setting high standards of corporate governance, reporting and audit and by holding to account those responsible for delivering them.

We have responsibility for the public oversight of statutory auditors.

The FRC engages with key Local Audit stakeholders, such as MHCLG, NAO, ICAEW, CIPFA and PSAA in order to contribute to sector-wide initiatives and governance.

AQR

We monitor the quality of the larger Local Audits ("Major") including health and local government bodies.



We promote continuous improvement in audit quality.

Our team of over 50 professional and support staff has extensive audit expertise to provide rigorous inspection of audit firms completing local audits.

The Firms

Audit firms undertaking local audits	Number of Major Local Audits (within the scope of AQR inspection)[1]	Market Share %	Reviewed by AQR in 2019/20
Grant Thornton UK LLP	109	40.2%	6
Ernst & Young LLP	72	26.6%	3
Mazars LLP	42	15.5%	2
KPMG LLP	25	9.2%	1
BDO LLP	12	4.4%	1
Deloitte LLP	10	3.7%	1
PwC LLP	1	0.4%	1
Total	**271**		15

[1] From data provided by the firms to the FRC in Q1 2019

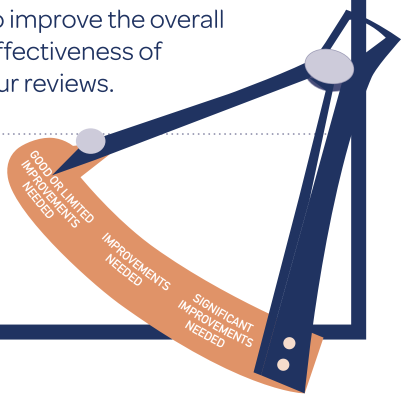
Our inspection process

Local Audits (860)

- Major Audits (FRC) - 271
  - 63 health bodies — 3 inspected
  - 208 other bodies — 12 inspected
- Non-Major Audits (ICAEW) - 589
  - 213 health bodies — 4 inspected
  - 376 other bodies — 8 inspected

We work closely with audit committee chairs to improve the overall effectiveness of our reviews.

We assess the overall quality of the audit work inspected.



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The FRC's mission is to promote transparency and integrity in business. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the Competent Authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

We consider all reviews assessed as requiring improvements or significant improvements against the Regulated Framework for Auditing and under the Auditor Regulatory Sanctions Procedure (https://www.frc.org.uk/auditors/audit-quality-review/auditor-regulatory-sanctions-procedure). Where findings indicate that the Registered Auditor has failed to comply with the Framework, the FRC Enforcement Committee can sanction an audit firm for such breaches under the procedures or may refer the conduct in question for consideration under the FRC Accountancy Scheme or the disciplinary procedures of the relevant RSB.

Financial Reporting Council

Major Local Audits

Audit Quality Inspection

Contents

The FRC is the independent body responsible for monitoring the quality of Major Local Audits[1], as defined by the Local Audit (Professional Qualification and Major Local Audit) Regulations 2014. This monitoring is performed by the FRC's Audit Quality Review ('AQR') team. Our reviews of individual Major Local Audit engagements are intended to contribute to safeguarding and promoting improvement in the overall quality of Local Audit auditing in the UK. Audit firms are required to audit the financial statements and Value for Money ("VfM") arrangements conclusion and exercise their statutory reporting powers, as required, in accordance with the Local Audit and Accountability Act 2014.

This report sets out the principal findings arising from the 2019/20 inspection of the seven audit firms completing major local audits in England ("the firms") carried out by AQR. We conducted the inspection between December 2019 and September 2020 ("the time of our inspection"). From 2019/20 onwards we are responsible for inspecting all firms involved with major local audits and will report publicly on our findings, annually.

Our report focuses on the key areas requiring action across the firms, in relation to major local audits, to safeguard and enhance audit quality. It does not seek to provide a balanced scorecard of the quality of the various firm's audit work. Our findings cover matters arising from our reviews of both individual audits and the various firm's policies and procedures which support and promote audit quality.

High quality audit is essential to maintain stakeholder confidence by providing an independent, impartial view of a major local audit body's financial statements and arrangements in place to secure value for money. Poor auditing may fail to alert management, the public and other stakeholders to material misstatements (including those arising from fraud) or financial control weaknesses, in those cases where management have not identified or appropriately amended them.

The combination of management not meeting their responsibilities in this respect and poor auditing could potentially put resources and jobs at risk. We have commented upon our engagement with Audit Committee Chairs on page 8. High quality audit matters and we will drive all audit firms to implement the necessary changes to reach the required standards.

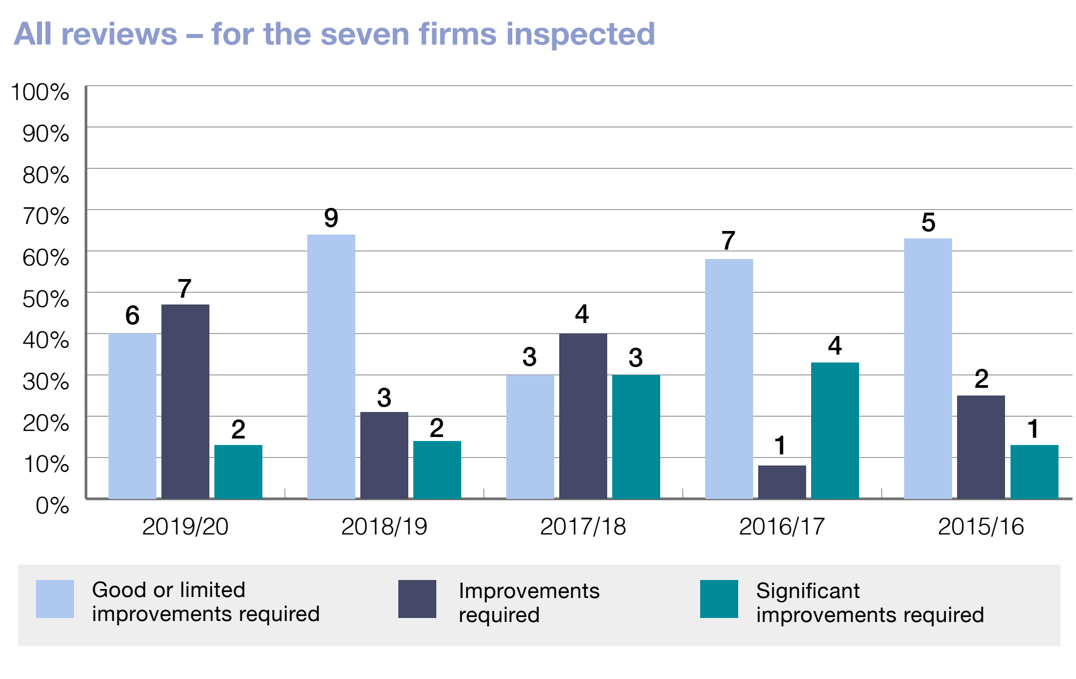
Of the 15 audits and VfM arrangements conclusions that we reviewed in the year across all firms, three were health bodies, two were other bodies and ten related to Local Government Authorities. This included: London Boroughs – 4, County Councils – 3, and 1 each of City, Borough and Metropolitan Borough Councils. We paid particular attention to the following areas of focus: valuation of property (including investment property), multi-employer pension deficits, occurrence and completeness of expenditure, first year audit procedures, the impairment of receivables and the fraud risk assessment and response thereto.

1 The definition of a major local audit is one which meets the following criteria:
- Total income or expenditure of at least £500 million; or
- For a Local Authority pension scheme, at least 20,000 members or gross assets in excess of £1,000 million.

1 Overview

Our assessment of the quality of audits reviewed

Financial statements audit



There were nine audits (60%), that required improvements, which is unacceptable. Furthermore, from our firmwide work, we identified that the proportion of major local audit financial statements containing a prior period adjustment was 36% when the engagement was an initial audit and 12% for a continuing audit. These are extremely high levels and all firms need to consider the causes of this and what changes in their audit approach might be required.

The audits of the local audit bodies' 31 March financial year end accounts are reviewed in the subsequent financial year's FRC inspection cycle (i.e. 31 March 2019 year ends were reviewed by the FRC in the 2019/20 inspection cycle.)

An audit is assessed as good or limited improvements required where we identified either no or only limited findings or concerns to report. Improvements required indicate that more substantive improvements were needed in relation to one or more key findings. Significant improvements required indicate we had significant concerns, typically in relation to the sufficiency or quality of audit evidence or the appropriateness of key audit judgements. The quality results for 2015/16 to 2018/19 above and in the VfM chart below include local audit inspection work completed by the FRC on a consistent basis to 2019/20, but under contract to Public Sector Audit Appointments Limited (PSAA) and reported publicly by them.

The purpose of the annual financial statements is to give members of the public, electors, those subject to locally levied taxes and charges, elected members, employees and other interested parties clear, reliable information about a local audit body's finances. This allows users to understand the financial position of the Body and have confidence in the Body's stewardship of public money and that it has been used and accounted for in an appropriate manner.

The overall results for our inspection of 15 financial statement audits across the seven firms are concerning, with just 40% of audits requiring no more than limited improvement (64% in 2018/19).

Urgent action is required from some of the firms to take appropriate action to respond to our findings to ensure improvements are made in audit quality, given the deterioration in quality in the year.

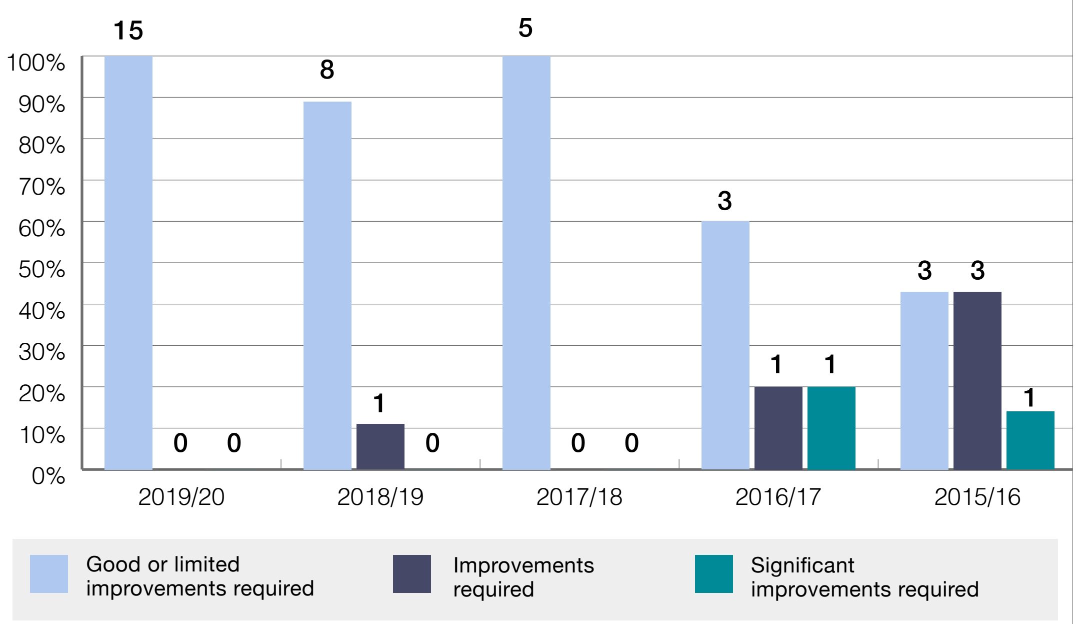
The results of our reviews at some individual firms have been encouraging with no more than limited improvements identified.

We completed 15 audit reviews in 2019/20, more than in previous years. However, resourcing pressures meant that we did not meet our target of 20 reviews.

Changes to the proportion of audits falling within each grading category reflect a wide range of factors, including the size, complexity and risk of the audits selected for review and the scope of individual reviews. Our inspections are also informed by the areas of focus referred to above. For these reasons, and given the sample sizes involved, our inspection findings may not be representative of audit quality across a firm's entire major local audit portfolio; nor do small year-on-year changes in results necessarily indicate any overall change in audit quality at the firm. Nonetheless, any inspection cycle with audits requiring more than limited improvements is a cause for concern and indicates the need for a firm to take action to achieve the necessary improvements.

Value for Money Arrangements Conclusion

All VfM reviews – for the seven firms inspected



Based on our reviews, the quality of VfM conclusion work across all firms remains high. All 15 reviews were assessed as either good or requiring limited improvements and, unlike the prior year, no reviews were graded as requiring improvement. Over time, we have raised few findings over the firms' work in this area.

Audit firms will need to comply with the new National Audit Office (NAO) Code of Practice, applicable for the first time to 31 March 2021 year-end financial statements, which has changed the scope and auditors' work on VfM arrangements. AQR will continue to monitor VfM arrangements for one further inspection review before monitoring the audit of VfM arrangements under the new Code.

Introduction

Under a new local audit monitoring regime implemented by the Local Audit and Accountability Act 2014, the monitoring of audits of all local bodies has now fully transitioned from the PSAA to the FRC and Recognised Supervisory Bodies.

The FRC has a statutory responsibility for monitoring the quality of major local audits, in England and does so through its AQR team. The monitoring of the audits of non-major local bodies is the responsibility of the accountancy bodies recognised for these purposes by the Secretary of State under statute.

The transition of monitoring of major local audits from PSAA to the FRC started on 1 April 2017, in two phases: initially only for health bodies in respect of financial years ending 31 March 2018; and then for all local audit bodies (largely local government bodies) in respect of their 31 March 2019 financial year end.

This is therefore the first time the FRC has reported publicly on major local audit quality, arising from its inspection activity of financial years ended 31 March 2019.

[2]Reviews by Recognised Supervisory Bodies are overseen by the FRC's Professional Oversight Team, and such oversight activity is reported on separately.

Scope of AQR Audit Quality Inspections

Our scope included reviewing both the audit of the financial statements and the conclusion on arrangements to deliver value for money for each audit selected in 2019/20. We report on this work in the following section.

Our selection of audits for review provided coverage of each audit firm and considered various other risk factors including: the results of previous inspections, the financial position/ reserves and activities of certain bodies, results from inspections by other regulatory bodies and issues identified in a body's financial statements, including auditor opinions.

We aim to cover the population of major local audits with the same average frequency as our other Companies Act inspection activities.

Overview of our inspection work

Six (40%) of the 15 audits reviewed in our 2019/20 inspection cycle, across the seven firms, required no more than limited improvements. The number of audits requiring improvements, nine (60%), is unacceptable.

Furthermore, from our firmwide work, we identified that the proportion of major local audit financial statements containing a prior period adjustment was 36% when the engagement was an initial audit and 12% for a continuing audit. These are extremely high levels and all firms need to consider what caused the adjustments and what changes in their audit approach might be required.

2 Details of the scope and results of the ICAEW inspections are presented in Appendix 2

Overall, some firms are still not consistently achieving the necessary level of audit quality and therefore need to make further progress. For two firms, GT and Mazars, the level of audit quality requires significant improvement, and those firms should perform a detailed Root Cause Analysis ("RCA") of the issues we have identified and put in place an audit quality action plan across local audits.

Over the past five years, most of the findings leading to reviews requiring more than limited improvements have been in the areas of: property and pension valuation; completeness and occurrence of expenditure; fraud risk assessment and the associated audit response to those risks; engagement quality control review and audit testing over material balances such as deferred income, PFI arrangements and amounts receivable. These findings often related to insufficient challenge of, and standing up to, management in areas of complexity and forward-looking judgement.

At a firmwide level, some firms have made improvements and we have observed good practices such as, increased use of internal specialists for property and pension valuation, improved workpapers to record evidence of challenge of management and better VfM risk assessments.

We have also seen some instances of good practice from our 2019/20 inspections, and we have seen an example where an audit team delayed its reporting where there were significant concerns over areas of audit judgements. Firms' senior management need to be clear that taking difficult decisions is an appropriate response to improving audit quality. The tone from the top needs to support a culture of challenge and back auditors making tough decisions.

We are also able to report positively that the VfM quality assessment across all firms has continued to improve and all audits reviewed were assessed as requiring no more than limited improvements. This is a pleasing aspect to the firms' work, providing assurance to stakeholders around the VfM conclusions.

We take robust action for all reviews assessed as requiring improvements or significant improvements and will consider all audits assessed as requiring improvements or worse, for consideration of possible enforcement action.

As part of our strategy to improve audit quality, we are increasing our focus on proactive supervision of the largest seven audit firms alongside an enhanced programme of audit inspections. We will identify those priority areas to improve audit quality, request the firms to implement suitable actions to achieve them and hold the firms accountable for delivery.

We wrote to the major audit firms in December 2019[3] setting out elements that we observe consistently on high quality Companies Act audits, especially on high risk engagements. The hallmarks of such audits apply equally to local audits and specific areas of focus should include:

- Significant involvement of partner and other senior team members.
- Good use of specialists.
- Consultation on complex areas.

3 https://www.frc.org.uk/news/december-2019-(1)/letter-to-audit-firms-on-high-quality-audits

- Challenge of management leading to changes where assumptions are too optimistic.
- Robust quality control procedures.
- Clear and timely communication to Audit Committees.

We are moving ahead with plans to increase the transparency of our audit quality assessments through publishing the scope and key findings of each of our individual audit inspections subject to statutory restrictions on disclosure without consent of confidential information. We aim to publish our first set of these reports next year alongside the annual report on local audit.

We recognise the challenges posed currently by the Covid-19 pandemic, both in relation to the level of uncertainty surrounding reliable external valuations and forward estimates, assessment of going concern, inability to carry out physical procedures (for example, stocktakes and other audit work) and assessing management's medium term budgeting plans and savings in order to ensure appropriate arrangements are in place to deliver value for money. We are aware that the National Audit Office has published guidance to auditors for going concern and VfM arrangements and we will consider such matters carefully during our 2020/21 inspection cycle.

Engagement with those charged with governance

We aim to engage in a two-way process to assist those charged with governance in ensuring the highest levels of audit quality and holding their auditors to account.

AQR met with or spoke to all Audit Committee Chairs, or other persons responsible for governance, for all 15 audits selected for review. Initial discussions focused on the role of the Chair, areas of risk they focus upon and any concerns over the audit process. Following our reviews, we sent a private report to each Chair and we plan to meet the Chair again where the quality of the audit was assessed as requiring more than limited improvement.

Audit selections

In 2019/20 we selected for inspection an increased number of audits with higher risk attributes. We define audits as higher risk where the Body: is a higher-risk category or geographic location; is experiencing financial difficulties or reducing levels of financial reserves; has balances with high estimation uncertainty; or the auditor has identified governance or internal control weaknesses. Higher-risk engagements frequently require audit teams to assess and conclude on complex judgemental issues.

We accept that our increased focus on higher-risk audits means that the grade profile of our inspection findings may be less representative of audit quality across the whole portfolio of an audit firm. The change in our approach to audit selection over time also means that historical comparisons of results need to be treated with care.

Reviews of individual audits

Our key findings covered a variety of areas of the firms audits, including audit work over both balance sheet and income and expenditure line items and the response to fraud, effectiveness of Engagement Quality Control review and use of reporting powers. The areas for improvement are set out below:

1.1 Financial statement audit

Significantly strengthen audit procedures and challenge of management and their own valuation experts in the testing of property revalued in the year

Local audit properties are usually the largest asset on a balance sheet and their accurate valuation helps to ensure consistency for the Whole of Government Accounts (WGA), provides a measure of the governance and management of property assets and enables effective medium term property decisions to be made for the benefit of stakeholders.

The quality of audit work over property valuations continues to be our area of greatest concern and where all firms must focus on improvement, some urgently. This covers all of Council dwellings, specialised and investment properties. Improvements are needed in the audit work over completeness and appropriateness of council dwelling beacon valuations, the challenge and corroboration of valuation assumptions and properties not revalued in the year.

We also identified instances where audit teams did not test the completeness and accuracy of the source data provided to, and used by, management's expert when valuing property.

Improve the level of evidence obtained over amounts receivable, particularly sample sizes and the assumptions used to value expected credit losses for financial receivables

The calculation of expected credit loss in local government bodies involves significant management judgement and estimation uncertainty, with the aggregate amount for impairment loss representing a material proportion of gross receivables. Auditors need to perform additional procedures to conclude that the credit losses were complete and accurate, together with source data used by management.

Strengthen the audit response to the risk of fraud arising from management override of controls

Journal entry testing is a key audit procedure to address the risk of fraud. Auditors should undertake appropriate procedures to assess the risks and design procedures to test a sample of journals for fraud risk characteristics. We identified audits with insufficient evidence supporting: the sufficiency of fraud risk characteristics when profiling and testing journals; the rationale for not testing certain types of journals and how audit teams were able to conclude that testing a small number of journals was sufficient to address the fraud risk.

Improve the consideration of the risk of fraud in expenditure recognition and the extent of testing around the completeness and occurrence of expenditure

In the public sector, auditors should focus on the risk of fraud and error on expenditure. The validity of recorded expenditure is of importance to users of the accounts as financial planning, including savings plans, will be based upon it.

Improvements are required in teams' understanding of the nature of expenditure and, as a result, ensuring they perform sufficiently large sample testing. Furthermore, several audits failed to test appropriately the completeness of expenditure and testing of transactions in a suitably long post year end period.

Importantly, the CIPFA/LASAAC Code of Practice on Local Authority Accounting requires properties to be held on the balance sheet on a valuation basis. Consequently, and as a result of the judgemental nature of revaluations, auditors need to perform sufficient testing in order to conclude that financial statements show a true and fair view, within the materiality applied.

Virtually all local audit bodies are assessed, by their auditors, as having a significant audit risk over the valuation of property.

Improve the robustness of the Engagement Quality Control ("EQC") review processes

The EQC reviewer is required to evaluate objectively the significant judgements made and conclusions reached by the engagement team. We noted deficiencies in the EQC review on five audit reviews.

Design and execute appropriate audit procedures to assess the estimates used to determine liability provisions

Recognition and measurement of provisions and contingent liabilities is judgemental and involves key assumptions and estimates, which might be impacted by reporting bias. Auditors should perform appropriate procedures to assess the completeness, accuracy and reasonableness of assumptions and estimates used to calculate provisions and we identified deficiencies in some testing performed by teams.

Enhance the procedures over defined benefit pension arrangements, with improvements in the sufficiency of audit work performed over pension fund assets

Most Local Government bodies are members of various multi-employer defined benefit pension schemes, with each member body including a share of the scheme liability on its own balance sheet. We identified required improvements in the levels of assessment or evaluation of the Pension Fund Auditor's work over the valuation of the pension scheme assets, in the testing of source data for pension liabilities and the audit challenge over harder-to-value pension assets (those categorised as Level 3).

Where appropriate, improve the evidence of judgements taken by auditors in their exercise of special reporting powers (statutory recommendation and public interest reports)

The Local Audit and Accountability Act 2014 ("the Act") imposes reporting powers and obligations on auditors to report instances of unlawful expenditure or activity of health service bodies which are likely to cause a loss or deficiency. In two audits we identified limited evidence of the audit team's assessments and conclusions on issued special reports.

Good practice observations

We identified particular examples of good practice in six of the fifteen audits reviewed, including the following areas:

- **Testing of property valuations in audits of a limited number of firms:** there was corroboration of key valuation assumptions and comparison of valuation movement to independent valuation indices of Gerald Eve and the RICS BCIS index.
- **The extent and timing of involvement by the Engagement Leader in the audit:** we saw detailed involvement in all aspects of the audit and importantly upfront time spent in reviewing the planning and response to audit risks, ensuring that work programmes fully reflected the required levels of testing.
- **Extensive work performed over the completeness of accruals in a health body:** the team compared accruals to detailed historical trends and balance of accruals to determine that there were no material suppliers excluded from the current year accruals listing.

- **Use of internal specialist to assist with the audit of pension liabilities and property valuations:** while not all firms have the use of internal specialists, where they are available, we have seen their insight enhance the team's audit evidence over these higher risk areas.
- **For the VfM conclusion, performing benchmarking of reserves for a Council and other similar bodies, to inform the evidence over financial resilience.**
- **Robust challenge to delay the sign-off of the auditor's report until the Authority responded with additional information and reconciled balances.**
- **The design and execution of a bespoke approach to the testing of capital project additions:** this provided the audit team with assurance for both the financial statement and VfM arrangements conclusion.
- **Improvements in the way audit firms have audited the calculation of an individual local audit body's share of the overall defined benefit pension scheme.**

1.2 Value for money arrangements conclusion

In our review of the VfM conclusion work of auditors, there were no key findings giving rise to any audit being assessed as requiring more than limited improvement.

Review of firm-wide procedures

This year, our firm-wide work across all seven firms focused primarily on the following areas:

1.1 First year audits and prior period adjustments

There were a total of 215 first year audits in 2019/20, with 90 relating to major local audits. This was an unusually high number of first year audits, resulting from the first year that PSAA appointed auditors to relevant principal local government authorities that had opted into its national scheme. Audit appointments were made for a five year period. Five of the seven firms issued audit opinions on financial statements containing a prior period adjustment. The proportion of major local audit financial statements containing a prior period adjustment was 36% when the engagement was an initial audit and 12% for a continuing audit.

Our key recommendations are that all firms should:

- Perform greater levels of self-review of their audits where they have been auditor for an extended period to ensure that the audit approach remains sceptical and challenging.
- On any future first year audits, enhance their initial audit procedures and enquiries of management and the Audit Committee to cover the potential risk of a prior period adjustment.
- Improve the challenge of management over complete and accurate financial statements, to minimise the number of financial statements containing a prior period adjustment.

1.2 Engagement Quality Control ("EQC") review

The scoping of EQC reviewers across the seven firms saw some variation. Four of the firms assigned an EQC reviewer to all of their major local audits. The remaining three firms appointed an EQC reviewer dependent on risk characteristics. At one firm no major local audits were assigned an EQC reviewer. In aggregate, 32% of major audits had EQC reviewer involvement. Our key findings were:

- Each firm should consider mandatory allocation of EQC reviewers to all major local audit, as such audits would benefit from the rigour and challenge applied.

- Improvements to the process of identifying EQC reviewers, as we noted instances where EQC reviewers had, in the recent past, been engagement leaders on audits assessed as requiring more than limited improvements.

- The EQC process should ensure consistent high quality. AQR has identified some reviews which were allocated an EQC reviewer yet were assessed as needing more than limited improvements.

1.3 Partner and staff matters

Our inspection across the firms included an evaluation of each of the seven firms' policies and procedures and we had no specific findings relating solely to Local Audit. Overall key findings were:

- Improve monitoring of the staff appraisal process and consideration of audit quality in relation to relevant metrics in staff appraisals.

- Enhance the significance of quality in determining local audit partners' and directors' performance ratings and remuneration.

1.4 A&C procedures

The firms all have detailed policies and procedures relating to acceptance and continuance decisions for audited entities. We had no specific findings relating solely to Local Audit. Findings included:

- Enhance controls on continuance decisions to prevent teams undertaking work prior to approval.

- Strengthen the continuance approval process, in particular the evidence to record and explain the conclusions reached.

Firms' internal and ICAEW quality monitoring results

This year we have included, in each of our public reports, summary results of the firms' internal inspection results, together with those of the ICAEW's latest quality monitoring. We consider that these results provide additional relevant information in relation to the assessment of the firm's audit quality.

The results of the firms' internal inspection results, together with those of the ICAEW's latest quality monitoring, are set out in appendix 2.

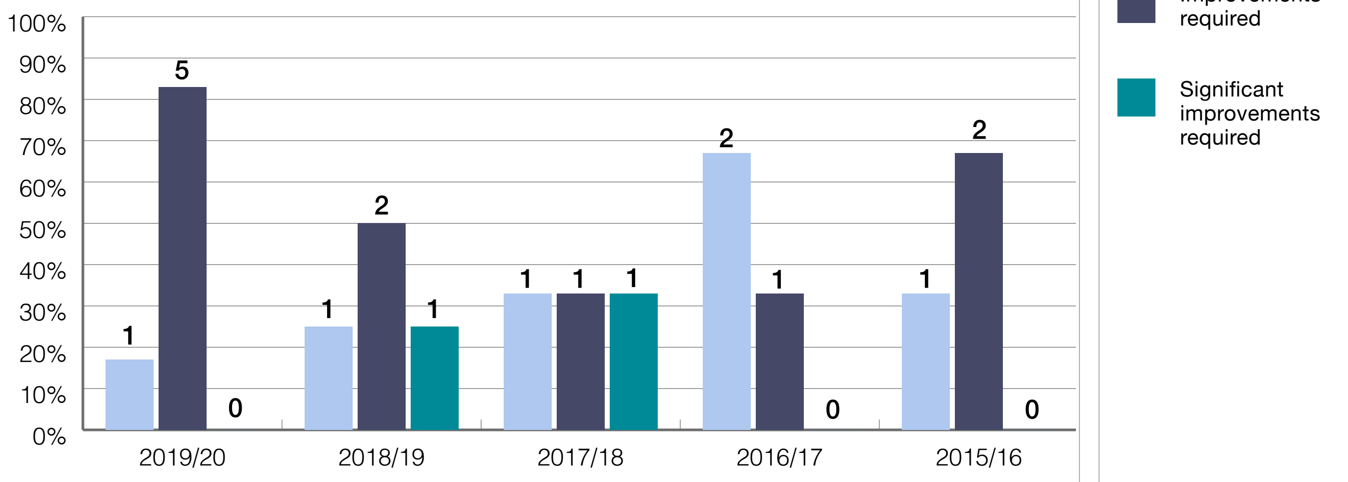
2 Review of individual firms

We have presented an assessment for the three firms with the largest shares of major local audits: Grant Thornton UK LLP (six audits reviewed), Ernst & Young LLP (three audits reviewed) and Mazars LLP (two audits reviewed).

We completed one audit review at each of the other four firms (BDO LLP, Deloitte LLP, KPMG LLP and PwC LLP) and these four results have been aggregated into one graphical summary and also presented below.

Our assessment of the quality of audits reviewed

Grant Thornton UK LLP – financial statements audit



The audit quality results for our inspection of the six audits are unacceptable, with five audits assessed as requiring improvement, although no audits were assessed as requiring significant improvement.

The firm should update its ongoing action plan with the findings and required actions from this inspection cycle. At least two key findings were identified on all audits requiring improvement and therefore areas of focus are the audit of property valuation, assessment and subsequent testing of fraud risks, audit procedures over the completeness and accuracy of expenditure and EQC review procedures. A full RCA for each audit reviewed by AQR should be completed and together with the RCA on the firm's own quality monitoring results should help establish the reasons for poor audit quality and how quality might be restored.

AQR will assess the firm's local audit quality action plan and will then determine whether any additional procedures or increased audit reviews will be required in the scope of our 2020/21 inspection programme for Grant Thornton.

VfM arrangements conclusion – all six reviews were assessed as requiring no more than limited improvement.

Firm's response:

Grant Thornton are absolutely committed to audit quality and we welcome all areas of the review work performed by the FRC. We recognise that we need to make improvements and are investing to do so. We are mindful, when performing our work, that local auditors have wider roles and responsibilities to commercial auditors, and that users of the local authority and NHS financial statements, including citizens as taxpayers and users of public services, have different priorities from corporate shareholders. We strive to bring an appropriate balance to our responsibilities under the National Audit Office Code.

We are disappointed by the FRCs findings on Property, Plant and Equipment (PPE) and take the FRCs findings seriously. Following the 2017/18 FRC inspections we implemented a Quality Investment Plan which responded to the FRCs points on PPE. Inevitably these actions – including the widespread use of external valuation experts - would not have fully impacted on the 2018/19 audits. These actions are fully implemented for 2019/20 audits. We note that there were only five other areas in which key findings were identified across six financial statements reviews. We will address all these findings in our future audit work.

We are pleased with the Value for Money results awarded by the FRC. Value for Money audit is a significant and important measure used by NHS bodies and local government to inform their own understanding of their performance.

Financial statements

We have undertaken extensive work over the past eighteen months to respond to previous comments made by the FRC and to implement our Quality Investment Plan. We have introduced a revised audit approach, enhanced training programmes, revised guidance and support for our teams, and mandated the use of auditor's experts for valuations on all major audits. This will impact fully on 2019/20 audits. It was not possible due to the timing of reviews to have these fully in place for 2018/19 audits. We will continue to drive further improvement in this area as part of our commitment to quality and to address the FRC findings.

As highlighted above, we are disappointed by the FRCs findings on PPE and take these findings seriously. Indeed the investments referred to above have focused on considerably expanding and we hope improving our work in this area of the accounts. We have prioritised our response in this way because the feedback from the FRC on individual engagements makes it clear that PPE is the major driver of our file scores. We will continue to focus on PPE, as required by accounting standards and the requirements of an ISA audit and in line with the FRC's focus in this area. Looking ahead, however, we also note the comments of Sir Tony Redmond in his recent inspection that *'valuations of non-investment properties are a potential distraction from the things that really matter to local taxpayers, notably financial resilience'*.

Whilst the recommendations of Sir Tony Redmond are not yet in force, the firm notes the significance of the Redmond review for the sector as a whole, and also notes that Sir Tony's comments in this area very much accord with the views the sector has expressed to us. Notwithstanding the commitment we have made to increase significantly the scope and nature of our work on PPE under current standards, we will therefore work with CIPFA to help it develop alternative ways that local authority accounts can be presented.

The FRC also highlighted EQCR, fraud risk factors and completeness of expenditure as its other key findings. We have summarised the FRCs findings below.

EQCR was raised as a finding on two audits. EQCRs provide a second engagement lead review on complex audits. The principle issues raised by the FRC were that the time charged did not support an effective and thorough review and that the reviewer failed to discuss significant matters with the engagement partner. We have issued revised guidance to all EQCRs.

Completeness and accuracy of expenditure was raised by the FRC on two audits and fraud risks raised on three audits. A common issue in each case was that the auditor needed to evidence better their risk assessment and conclusions. In respect of fraud the FRC highlighted the need to improve on the sufficiency of testing including sample sizes. For expenditure, the FRC highlighted the need to disaggregate debits and credits and ensure the completeness of the populations. We are addressing all these points in our ongoing training.

We will continue to develop and improve our audit approach and provide appropriate training for the other areas identified by the FRC in this year's inspections. We currently apply Root Cause analysis to all internal and external files that require significant improvement. We will ensure that we respond to any underlying issues in a systematic manner, through our Quality Investment Plan. We will also undertake a Root Cause review on all reviews. We will capture the learning from these including what went well, such as the ICAEW reviews (see appendix 2), and how we can build on this further.

Economy, efficiency and effectiveness

Under the NAO Code in place for 2019/20, auditors are required to issue a conclusion on Value for Money (VfM) at all principal authorities. The FRC reviewed six of our audits, assessing all six as Good or Limited improvement only. The ICAEW assessed all files reviewed at the top level. These are excellent results, and we are proud of the work we have delivered.

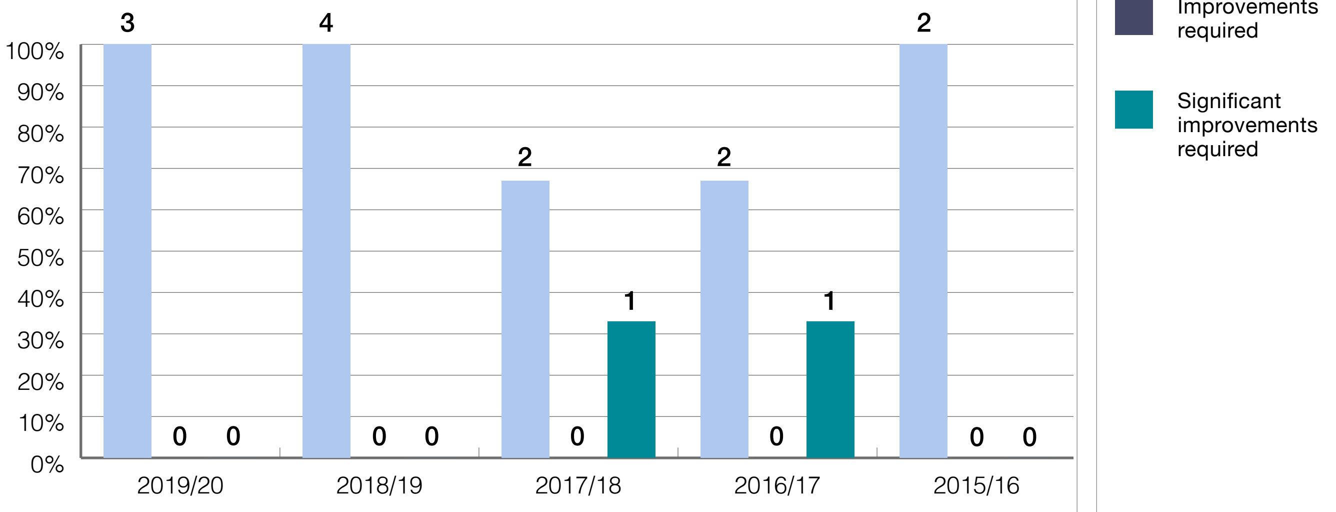
In his report of September 2020, Sir Tony Redmond, stated that: *"Audit quality is a key determinant of audit performance and this must be seen, not only as a measure against agreed standards and principles, but also whether the output of an audit is seen to meet the legitimate expectations of council taxpayers and other users of accounts….Value for money audit should be designed to provide the reader with assurance that the systems in place for use of resources in an effective and efficient way are adequate and appropriate, and that the local authority plans will deliver financial resilience in the immediate and medium term."*

We consider that VfM audit is at the centre of local audit. We take VfM work seriously, invest time and resources in getting it right, and give difficult messages where warranted. In the last year, we have issued a Report in the Public Interest at a major audit, Statutory Recommendations and Adverse VfM Conclusions.

The inspection results illustrate our strength in VfM audit, in common with other firms in the sector. With the new Code coming into effect for 2020/21, we have already updated and revised our approach. We will be training all our people in the new approach in the autumn.

Our assessment of the quality of audits reviewed

Ernst & Young LLP – financial statements audit



All audits reviewed by AQR were assessed as requiring no more than limited improvement and there were no key findings.

The firm has increased both local audit training and the rigour in its audit methodology. These actions have contributed to the improvements in the firm's quality results since 2017/18.

A number of the areas of good practice referred to in our report were from Ernst & Young LLP local audits and we have seen the firm take the lead in its use of internal specialists for both property and pension valuations.

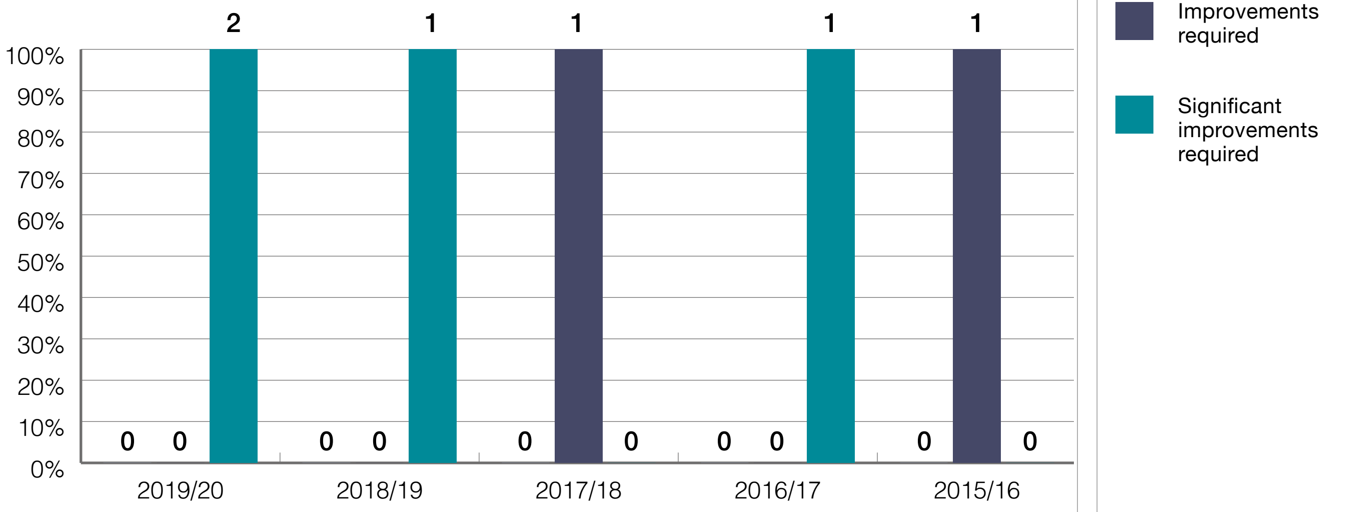
VfM arrangements conclusion – all three reviews were assessed as requiring no more than limited improvement.

Firm's response:

We are pleased with the good FRC inspection results achieved for both our financial statement opinion and value for money conclusion reviews in the last 2 years. We continue to invest in audit quality with both local training for our public sector audit teams and audit quality initiatives and training for all auditors across the UK firm. We are pleased that the changes we made to our pensions guidance to address previous inspection findings have been reflected in these results. We value the feedback received from the FRC and will ensure we respond to all findings from FRC inspections to continue to drive improvements in audit quality across the practice.

Our assessment of the quality of audits reviewed

Mazars LLP – financial statements audit



Both audits reviewed by AQR were assessed as requiring significant improvement. This is clearly unacceptable and follows a trend of poor inspection results.

Following its poor results over the past five years, the firm needs to commit to an action plan for local audit quality improvement. Key areas of quality focus for the firm include the audit of property valuations, group audit oversight, the sufficiency of audit testing over income and receivables and expenditure, and EQC review procedures. The firm should submit to AQR a full RCA for each audit and should also undertake RCA over the firm's own quality monitoring programme and the inspections performed by ICAEW to establish how audit quality can be restored.

AQR will assess the firm's local audit quality action plan and will then determine whether any additional procedures of increased audit reviews will be required in the scope of our 2020/21 inspection programme for Mazars.

VfM arrangements conclusion – both reviews were assessed as requiring no more than limited improvement.

Firm's response:

Our commitment to audit quality is at the core of our values and we are dedicated to the continuous improvement of our audit work and the service we provide to our audit clients. Whilst we are pleased with the results of the AQR's reviews of our work on Value for Money conclusions (which show only limited improvements identified for a number of years), we are disappointed with its findings on our work on the audit of the financial statements at 2 of our local audit clients. The firm will robustly respond to the findings and has plans in place to improve the quality of our local audit work.

We have prepared a Local Audit Quality Plan, which is a sector-specific element of our firm-wide Audit Quality Plan. These draw together information on risks to audit quality from a range of sources including quality monitoring findings, changes to auditing and financial reporting standards, and feedback from auditors. The Local Audit Quality Plan has also taken account of the AQR's findings and emerging audit quality risks arising from the update of Practice Note 10 and the National Audit Office's Code of Audit Practice. This plan will be maintained by the firm's Audit Quality Team and subject to oversight from our Audit Board.

Root cause analysis (RCA)

Our Audit Quality Team has undertaken a detailed RCA project to identify and understand the drivers of poor audit quality in some of our local audit work. The RCA project has focused on all local audits where the need for improvements or significant improvements have been identified either by the AQR, ICAEW or our internal Quality Monitoring Team.

A report on the findings of the RCA project was considered by our Audit Quality Board in August 2020 and our Local Audit Quality Plan will be refreshed to ensure key findings from the RCA are addressed. Our next RCA project cycle, which is due to commence in October 2020, will consider the two files reviewed by the AQR for audit years ended 31 March 2019.

Engagement Quality Control Review (EQCR)

Prior to the AQR findings, we had recognised a need to increase our capacity in relation to engagement quality control reviews. We have made investments in this area by increasing the number of individuals with detailed knowledge of local audit who are licensed to undertake this key role. We have also targeted our engagement quality control reviewer resources more effectively for the March 2020 year-end audits, focusing on those local audits that are of a significant scale, complexity, or which present additional risks to audit quality.

We recognise that our engagement quality control reviewers need a broad understanding of the particular complexities and nuances of the local government and NHS sectors, as well as emerging audit and financial issues relevant to those sectors. Therefore, from the March 2021 year-end audits, all engagement quality control reviewers who do not have significant sector expertise will attend a mandatory sector briefing, provided by the Audit Quality Team.

We have also undertaken a thematic review of our firm-wide engagement quality control review processes during 2020 in order to identify potential improvements. The report will be presented to the Audit Board in its October meeting. The findings and recommendations will help us improve the impact of our engagement quality control reviews upon audit quality.

The audit of property valuations

The nature of property valuations makes it a complex area which involves the application of a high degree of management judgement, which must be appropriately challenged by auditors. We are disappointed that the AQR has identified a need for improvements in respect of our work on property valuations.

We have developed a comprehensive suite of guidance to auditors over recent years. This has been refreshed during early 2020 to ensure that our teams are clear on the level of testing that is required in key areas such as the accuracy and completeness of source data, the challenge of management and expert judgements, and the assessment of potential risks of material misstatement arising from rolling valuation programmes. In response to the latest reviews, use of a sector-specific audit testing programme will be mandated from our 2020/21 audits onwards (having been strongly recommended for the 2019/20 audit year).

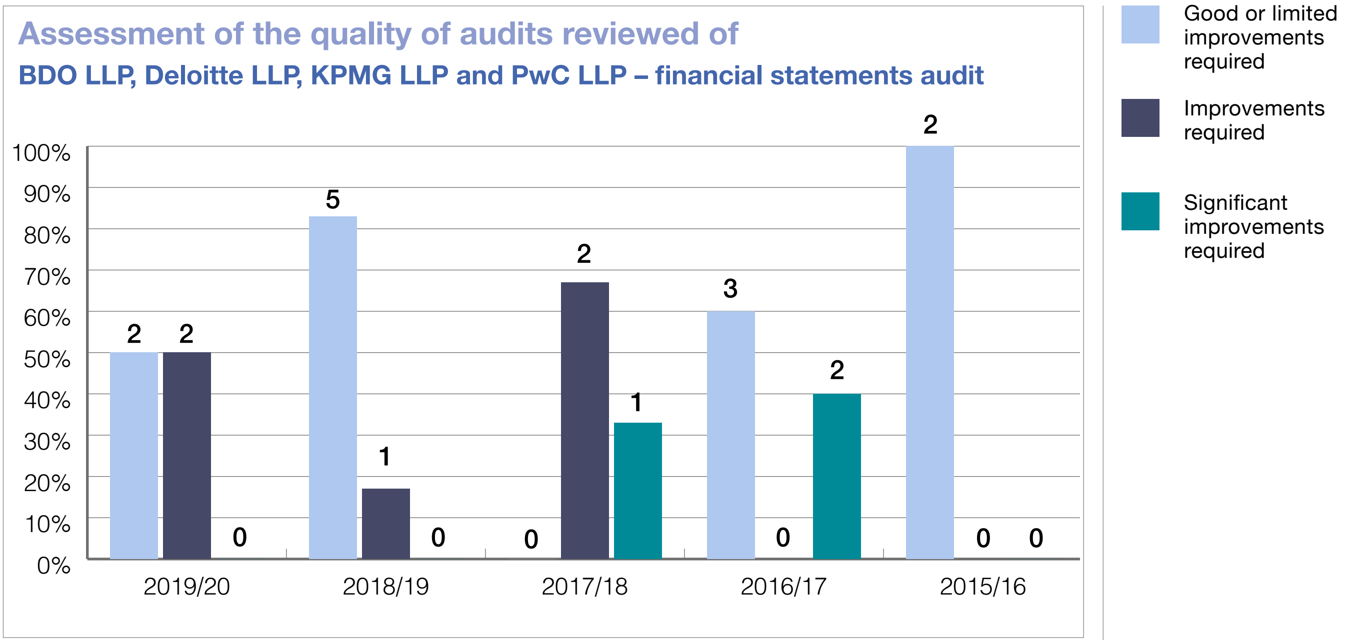
To further respond to the complexity associated with the audit of some property valuations, we have re-visited the arrangements in place for auditors to access valuations expertise to support their audit work, where required. This support is being used extensively during the audit of 2019/20 financial statements.

Group audit oversight

Our audit approach is fully compliant with underlying auditing standards. To support auditors in meeting the requirements in respect of group audit oversight, a range of mandatory templates is in place. A briefing from our Audit Quality Team to Key Audit Partners reminded them of the importance of documenting how they have exercised appropriate oversight of the group audit through, for example, their direction, supervision and review of the work of component auditors.

The audit of income and expenditure

Sector-specific briefings have reminded local auditors of the importance of fully documenting their judgements relating to the testing of income and expenditure. Such judgements include those made in determining the appropriate period before and after the year-end which should be subject to cut-off and completeness testing.



The above graph aggregates the financial statement audits reviewed for these four inspected firms. Not all of the four firms were inspected in each of the years 2015/16 to 2018/19.

With two of the audits being assessed as requiring improvement, all firms will need to consider the implications of this on their remaining audits and methodology.

All audits had AQR findings but only two had key findings. The key findings related to property valuation, completeness and accuracy of expenditure, insufficient procedures following up limitation in the work of the pension fund auditor, deficiencies in the audit work performed over payroll costs and insufficient testing of journals with higher fraud risk characteristics.

Each firm needs to consider these findings and ensure the actions committed to are completed, such as increased training, changes to methodology or mandated procedures/ testing. The two firms with audits requiring improvement should submit a full RCA to AQR. All firms need to consider the results from their internal monitoring and of inspections performed by ICAEW to establish if there are any other areas of concern.

AQR will assess the two firms' local audit quality action plans and will then determine whether any additional procedures or increased audit reviews will be required in the scope of our 2020/21 inspection programme.

VfM arrangements conclusion – each firms' review was assessed as requiring no more than limited improvement.

Firm's response:

BDO

The key findings reported relate to similar issues that have been reported over a number of recent years. Our audit approach and supporting training, both general and sector specific, for all of our teams, over the last few years has included focus on further enhancements to our work on valuations, pensions, the completeness of expenditure and our testing of journals. This includes issuing guidance on identified best practice in challenging of property valuations, revisiting and developing our pensions auditor assurance scope and further enhancing data analytics scope and functionality.

Deloitte

Audit Quality is our number one priority. We welcome the challenge provided by the AQR inspections and thank them for their insight and comments. We perform root cause analysis on all our external AQR inspections and take actions to address any matters identified and to share best practice. We note the areas of findings highlighted by the AQR and we have taken wider actions within our audit practice to address these. This includes enhanced training and guidance on reporting from specialists (for example property) and updated risk assessment guidance for pensions assets supported by our Pensions Centre of Excellence. In addition, we share all inspection findings as part of training to staff involved and to our internal quality reviewers.

KPMG

We have strengthened the foundations of audit quality as a result of our significant investment over the past three years. Our focus is on achieving consistent application of our new procedures. We have completed root cause analysis over any AQR findings in this cycle and will continue to invest to maintain a standard of audit rightly expected by the AQR. Further investment is planned for 2020 to help ensure this.

PwC

Our Programme to Enhance Audit Quality (PEAQ) was launched in June 2019. This three year programme includes a wide-ranging and fundamental package of measures, with the single objective of delivering consistently high quality audits. We have made significant progress since the start of the programme and remain committed to continued focus and investment in this programme over the next two years.

We have a limited number of Local Audit engagements, which are all performed by Responsible Individuals with a significant focus on this industry specialism within their portfolios. During 2019/20, a sample of our Local Audits was inspected by the AQR and through our own internal quality monitoring programme.

As set out in our response to the AQR's July 2020 inspection report on the firm, as part of the PEAQ a revised approach to root cause analysis (RCA) was approved by the Audit Executive in February 2020. In July 2020, we created a dedicated team specialising in Continuous Improvement activities across inspection, review and other audit quality activities. This team performs RCA on identified issues and prepares an action plan to address those findings, using intelligence from both audit quality findings and best practice examples. The nature of the findings raised in this report across all firms was discussed with the inspection team earlier this year and was shared with our Local Audit RIs as part of our continuous improvement activities.

3 Other matters

FRC engagement with annually inspected firms and other stakeholders to improve audit quality

We have increased engagement with Government Departments and other key Local Audit and Accountability Act 2014 ("LAAA") stakeholders during 2019/20, to ensure an awareness of the risks in the sector and that risks and audit quality matters are communicated back to stakeholders. These discussions and meetings with stakeholders have included NAO, CIPFA, ICAEW and PSAA, together with participation in Ministry of Housing, Communities and Local Government (MHCLG) Delivery Board meetings.

The Local Audit Sub-Group, chaired by the FRC to deal with audit related issues arising from the new regime, met once in 2019. The MHCLG commenced formal meetings during 2019 on Local Audit matters and this has effectively replaced the Sub-Group.

The MHCLG Local Audit Delivery Board has met quarterly and the FRC has been represented at all meetings. The FRC has two members on the delivery Board, one from the Professional Oversight Team and one from AQR. Other members of the Board comprise key stakeholders responsible for delivery of aspects of the Local Audit and Accountability Act 2014 (the Act), such as the National Audit Office (setters of the Audit Code for Local Auditors), CIPFA (responsible for the Accounting Code), PSAA (selected by most local government bodies to appoint auditors and negotiate audit fees on their behalf; formerly responsible for monitoring audit quality) and the Local Government Association.

Registered audit firms conducting local audits are not permitted on the Board. At an audit firm level, the FRC has continued regular engagement with all seven firms conducting major local audits. This has included planning meetings before scoping the 2019/20 inspection cycle and regular updates during the inspection process. We have met all firms to discuss the initial audit quality findings ahead of the 31 March 2020 year end for Local Audit bodies to ensure firms can develop their own plans to improve quality on those areas of concern. Discussions with the firms continue in the wake of sector-specific matters following the COVID pandemic.

Developments in Local Audit

At the end of 2019, MHCLG announced that Sir Tony Redmond (former CIPFA President) would conduct a review of local authority financial reporting and external audit (the Redmond Review).

The Redmond Review was extended beyond a post-implementation review to consider the quality of the audit of local authorities, whether auditors were using their reporting powers correctly and if councils were heeding recommendations to help improve the financial management of their accounts.

One key purpose of the Review was to consider the structure and oversight arrangements for Local Audit and, consistent with the recommendations of the Kingman review, whether a single body should be created to oversee Local Audit. The recommendations arising from this review were published on 8 September 2020 (https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review)

Appendix 1: Key local audit information

Identifying major local audits

An analysis of available local audit data for 2019 identified 271 major local audits within AQR scope. This number changes annually as the definition of a major local audit is dependent upon meeting one of the following criteria:

- Total income or expenditure of at least £500 million; or
- For a Local Authority pension scheme, at least 20,000 members or gross assets in excess of £1,000 million.

The following table sets out the total number of Local Audits by sector, along with those assessed as meeting the major local audit definition. The audits for Local Government and other non-health bodies were principally awarded to five audit firms in five tiered tranches, following a full tender process conducted by PSAA in its capacity as an appointing person under the LAAA. These audit appointments were made to cover five accounting periods commencing with 31 March 2019. The table also sets out the number of major local audits subject to audit inspection by AQR.

No Local Authority pension fund audits were selected for review in 2019/20, but pensions accounting, and its associated disclosure were selected as an area of focus in 11 of our 12 non-health reviews completed. Furthermore, AQR has previously reviewed a sample of Local Authority pension fund audits, without significant findings. We are planning to select some pension fund audits as part of our 2020/21 inspections programme.

Category	Total Population	Major Local Audits	Reviewed by AQR in 2019/20
Health Bodies (NHS Trusts and Clinical Commissioning Groups)	286	63	3
Local Government Bodies	361	130	10
Police and Crime Commissioners (PCC)	74	9	1
Other Bodies (inc fire and waste)	59	3	1
Local Authority Pension Funds	80	66	0
Total	**860**	**271**	**15**

Audit firms completing local audits

There were seven audit firms that completed at least one audit of a major local body for the financial year ended 31 March 2019. The three firms with the largest market share of major local audits were Grant Thornton, EY and Mazars, with a collective share of 82%. All the firms involved, including the number of audits they completed, and their respective market shares were as follows:

Audit firm	Number of Local Audits	Market Share %	Number of Major Local Audits	Market Share %	Reviewed by AQR in 2019/20
Grant Thornton UK LLP	323	37.6%	109	40.2%	6
Ernst & Young LLP	222	25.8%	72	26.6%	3
Mazars LLP	111	12.9%	42	15.5%	2
KPMG LLP	109	12.7%	25	9.2%	1
BDO LLP	55	6.4%	12	4.4%	1
Deloitte LLP	36	4.2%	10	3.7%	1
PwC LLP	4	0.4%	1	0.4%	1
Total	**860**		**271**		**15**

Appendix 2: Firms' internal quality monitoring and ICAEW results

Results of Firms' own monitoring

Background

This appendix sets out aggregated information relating to the seven firms' internal quality monitoring for individual audit engagements. It should be read in conjunction with each firm's transparency report, which provides further detail of the internal quality monitoring approaches and results, and the firm's wider system of quality control. We consider that publication of these results provides a fuller understanding of quality monitoring in addition to our regulatory inspections, but we have not verified the accuracy or appropriateness of these results.

Due to differences in how inspections are performed and rated, the results of the firms' internal quality monitoring may differ from those of external regulatory inspections and should not be treated as being directly comparable to the results of other firms.

Firms approach to internal quality monitoring

The firms' internal inspection programs generally consider the full population of both major and non- major local audits performed. The programs are varied but are usually risk-based as well as structured to cover Responsible Individuals ("RIs") over a fixed period of time. Audit files are selected for review based on a number of criteria, including risk and public interest. Reviews are supervised and reviewed by the firms' own internal quality teams.

Scope

The seven firms' Internal Quality Monitoring ("IQM") program, relating to local audit, covered 29 individual audits, of which 12 related to major local audits.

The aggregate number of major local audits covered by the firms' own IQM was less than that of the AQR and amounted to:

Coverage of all local audits	3.4%
Coverage of major local audits	4.4%

Furthermore, not all firms reviewed the VfM arrangements conclusion work on each audit selected for review.

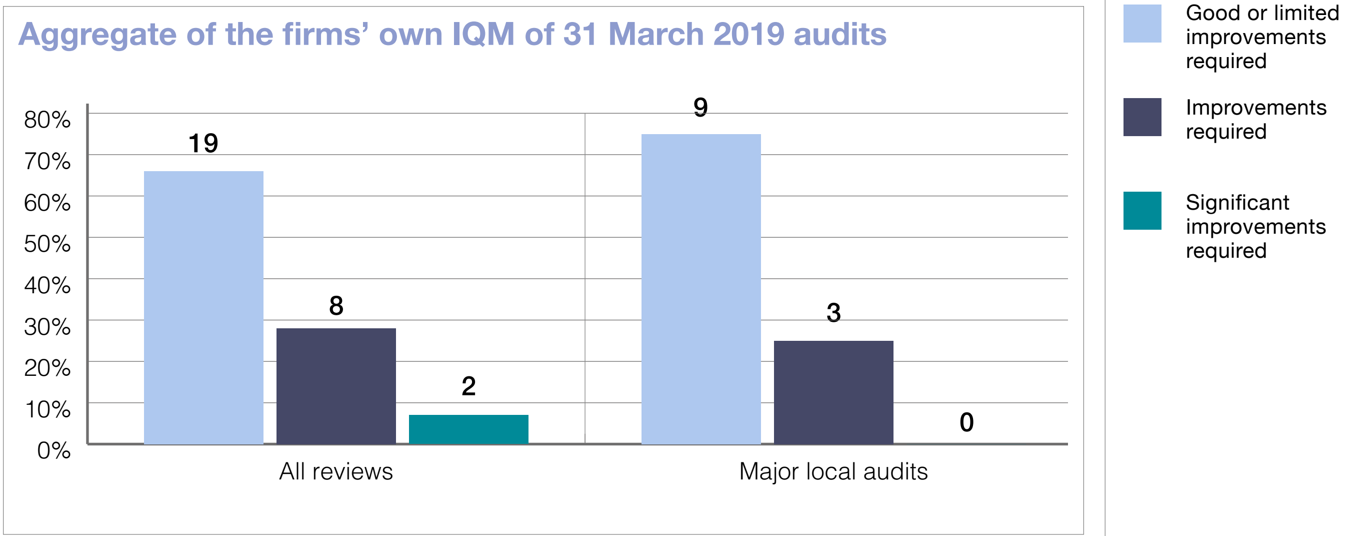
One firm did not select any local audit files for review.

Results

In aggregate, the firms reported that across the 29 local audits reviewed, 19 (65.5%) were of a good standard or limited improvement standard. There were eight audits assessed as requiring improvement and two audits needing significant improvement.

For the firms' major local audits, 12 were reviewed and nine (75%) were assessed as either good or requiring limited improvement and there were no audits assessed as requiring significant improvement.

The results of the firms' financial statement opinion reviews for 31 March 2019 local audits are set out below.



The firms' various IQM programs generally use the same grading categories as AQR but where this is not the case, decisions on grading are aligned as closely as possible to those that would result from the AQR process.

Results of ICAEW monitoring

Background

All firms completing local audits are subject to annual independent monitoring by ICAEW. ICAEW reviews local audits outside the FRC's population. ICAEW does not undertake work on the firms' firm-wide controls as it places reliance on the work performed by the FRC.

Scope

ICAEW's reviews are risk-based, with the aim of reviewing a representative sample of a firm's local audit portfolio over a six year cycle. ICAEW adopts a cyclical approach to the monitoring of registered local auditors. Audit monitoring under the Local Audit and Accountability Act 2014 had a phased implementation. In the first year, the scope of monitoring was limited to a firm's portfolio of local health body audits of years ended 31 March 2018. In this, the second year, the scope of monitoring was extended to include local audits (health and local government bodies) of years ended 31 March 2019.

ICAEW reviews are designed to form an overall view of the quality of the audit. Where applicable, both the financial statement opinion audit and work to support the VfM conclusion are reviewed. ICAEW assesses the audits it reviews as either 'satisfactory/acceptable', 'improvement required' or 'significant improvement required'. Visit icaew.com/auditguidance for further information about ICAEW's audit monitoring process including its approach to assessing audits.

In 2019/20 ICAEW planned to review 14 standard-scope engagements, but because of sector-wide challenges, some audits of years ended 31 March 2019 were unavailable for review during this review cycle. Reviews of at least two of these audit opinions will be deferred until 2020/21.

ICAEW has completed its 2019/20 monitoring and the report summarising its audit file review findings and any follow-up actions proposed by the two firms that were inspected (GT and EY) will be considered by ICAEW's audit registration committee in November 2020.

Results

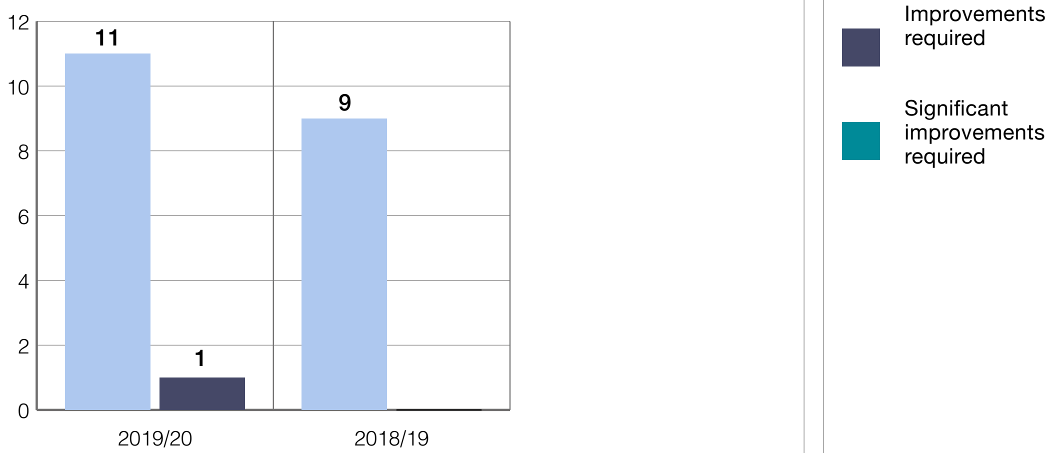
The audit work reviewed for 2019/20 was generally of a good standard. 11 reviews were satisfactory/acceptable, with one requiring improvement. The work to support the VFM conclusion was satisfactory on all files reviewed.

ICAEW assessed one audit as needing improvement due to weak substantive analytical review of pension scheme assets. Other findings included weaknesses in audit testing of Property, Plant and Equipment in four audits, and other isolated aspects of audit evidence and documentation.

Assessing an audit as needing improvement or significant improvement does not mean that the audit opinion was incorrect or that the financial statements were materially misstated.

Results of ICAEW's financial statement opinion reviews for the last two years are set out below.

ICAEW assessment of the quality of non-major audits reviewed



Given the sample sizes, number of audit firms reviewed and mix of local audit bodies inspected changes from one year to the next, the proportion of audits falling within each category cannot be relied upon to provide a complete picture of the firms' aggregate performance or overall change in audit quality.

Firm's response:

GT

For 2018/19, the ICAEW selected seven of our audits for review of the financial statements audit. Of these, six audits were assessed as satisfactory/acceptable. Only one audit had improvements required, and we have already taken action to address the issues raised. The ICAEW also reviewed five Value for Money Conclusions. All five were assessed as satisfactory/acceptable. We are delighted with the results, which in our opinion evidence the hard work and investment we have made in audit quality in recent years. As reflected elsewhere in this report, these efforts are yet to significantly impact our AQR scores to the levels expected by the FRC and we will continue to work hard to ensure that our efforts more clearly translate to improved AQR scores in future. We are undertaking Root Cause reviews to identify what we got right, and any scope for further improvement.

The firm's internal monitoring showed similar results to the ICAEW reviews. Of eight local audit files selected, seven had good or limited improvements. Only one file had improvements required and we have now completed the Root Cause review and identified and responded to all learning points. Four of the five Value for Money files selected showed Good or limited improvements required, and only one had improvements required. As above, we are capturing the learning and will build on this for 2019/20 and beyond.

EY

We are pleased with the good results achieved in EY's ICAEW quality assessments, achieving 100% satisfactory/acceptable in both the 19/20 and 18/19 inspections. This reflects the results of our internal inspections of health and local government audits performed in September 2019, our 2020 public sector internal inspections are scheduled for September 2020.

We continue to invest in audit quality with both local training for our public sector audit teams and audit quality initiatives and training for all auditors in the UK firm. We welcome feedback from our regulators and the lessons learnt from both internal and external inspections will be included in upcoming training for public sector auditors.

Mazars

We operate a robust quality monitoring review programme which mirrors the challenge shown by the AQR in its reviews of audit quality. We are proud of an uncompromising approach to quality monitoring as a key part in driving improvements in audit quality.

Our quality monitoring arrangements for local audit work form an integrated part of our firm-wide programme for review, overseen by our Director of Audit Standards. The local audit work of all of our Key Audit Partners is reviewed at least every two years as part of this programme. These reviews cover the work undertaken on both the audit of the financial statements and the conclusion on Value for Money arrangements. Our quality monitoring programme for 2018/19 audits included reviews of 9 (7.7%) local audit files. Of these, 5 (11.1%) were reviews of major local audits.

Findings from quality monitoring reviews, together with responses to the key themes and findings from our Audit Quality Team, are reported three times a year to the Audit Board alongside the key findings from our root cause analysis projects. The frequency of reporting means that responses can be put in place quickly to address significant findings at a firm-wide level, where required.

BDO

In relation to the results of the ICAEW reviews of non-major audits we consider that given the small sample size and the fact that all firms are not reviewed annually, caution should be exercised in drawing overall conclusions on any trends.

In relation to the overall firms' IQM results again comparisons can be difficult given that the approach to internal reviews across all firms varies. We would note that in relation to our internal review results, we use root cause analysis where appropriate to determine the causes of any points raised and to drive actions undertaken across the sector.

Our audit approach and supporting training, both general and sector specific, for all of our teams, over the last few years has included focus on further enhancements to our work on valuations, pensions, the completeness of expenditure and our testing of journals. This includes issuing guidance on identified best practice in challenging property valuations, revisiting and developing our pensions auditor assurance scope and further enhancing data analytics scope and functionality.

Deloitte

The firm includes both major local audits and local audits within our annual IQM processes. The selections are risk based and ensure that there is coverage of all responsible individuals over a three year period for local audit work. The firm undertakes Root Cause Analysis ("RCA") for any improvement required or non-compliant engagement inspections, as well as on positive results to identify factors to support audit quality. The firm performs retrospective remediation of all high and medium findings, and prospective remediation on all findings in the subsequent year's audit. We communicate any thematic findings from engagement reviews to the practice. Further information on our IQM processes can be found within our annual transparency report.

KPMG

Our QPR programme for local audit mirrors that of our wider audit practice and is designed to hold audit teams to quality levels that assess not only compliance with auditing standards but also adherence to internal requirements such as the performance of specified procedures or completion of specific mandated consultations. As such teams that perform audits that are very substantially compliant with auditing standards may receive a rating other than satisfactory in our internal reviews. Accordingly, it is difficult to make direct comparisons between the results of our internal and external inspection processes.

In order that we learn from the internal and external inspections process we perform root cause analysis to consider the details of findings from across the full spectrum of reviews to identify remedial actions. We also consider findings from a range of inspections to ensure that we develop robust remedial actions. We have a series of actions in place focussed on enhancing our coaching, reviewing and project management capabilities. We have also continued to expand our Second Line of Defence team.

PwC

As set out in our response to section 2, we have a limited number of Local Audit engagements, which are performed by Responsible Individuals with a significant focus on this industry specialism within their portfolios. During 2019/20, a sample of the firm's local audits was inspected through our own internal quality monitoring programme – the Engagement Compliance Review (ECR).

As set out in our response to the AQR's July 2020 inspection report on the firm, our ECR programme considers the full population of audits performed and is designed to cover both the firm's responsible individuals ("RIs") and specific categories of audit clients, including Local Audit. Our ECR programme involves a post-signing review of an audit engagement for each RI at least once every three years, and twice in any six-year period for audits identified by the firm as having a high public profile. Findings and best practice examples from any ICAEW inspections and ECR reviews are incorporated into our continuous improvement programme.

This report has been prepared for general information only. The FRC does not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this document or arising from any omission from it.

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North Tyneside Council
Report to Audit Committee
Date: 18 November 2020

ITEM 5
2019/20 Annual Financial Report

Report from:	**Finance**	
Responsible Officer:	**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 seek the Audit Committees approval of the 2019/20 Audited Annual Financial Report in accordance with Section 9 (2) of the Accounts and Audit Regulations 2015.

1.1.2 This report and supporting appendices present the Audit Results Report which details the outcome of the external audit of the Authority's 2019/20 Financial Statements by Ernst and Young.

1.2 Recommendation(s):

The Audit Committee is recommended to:

(a) approve the Audit Results Report, submitted by the Authority's external auditors Ernst and Young, and agree the draft Letter of Management Representation; and,

(b) approve the 2019/20 Audited Annual Financial Report.

1.3 Forward plan:

1.3.1 This report is contained in the forward plan of the Audit Committee.

1.4 Council plan, policy framework:

1.4.1 This report covers the financial aspects of all service responsibilities as identified within the 2018-2020 Our North Tyneside Plan and the Authority's policy frameworks. The Audit Results Report covers all financial aspects of the Authority's Plans.

1.5 Information

1.5.1 Background

It is a requirement of Section 9 (2) of the Accounts and Audit Regulations 2015 and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code that the Authority approves its audited Annual Financial Report for the financial year.

The requirements and timeline for the approval of a local authority's Statement of Accounts are set out in the Accounts and Audit Regulations 2015. However, due to the impact of the COVID-19 pandemic the Ministry of Housing, Communities and Local Government (MHCLG) made changes to the Regulations. These national changes were made in the Accounts and Audit (Coronavirus) Amendments Regulations 2020 (SI 2020/404). The statutory deadline for the 2019/20 accounts was extended for all local authorities. The changes resulted in the deadline for the Chief Finance Officer to certify the draft accounts changing to 31 August 2020 (previously 31 May) and for the consideration and approval of the accounts taking place no later than 30 November 2020 (previously 31 July).

1.5.2 This is the second year that the Authority's audit has been undertaken by Ernst and Young. Building on the successful process undertaken in 2018/19, the overall audit process, to date, has been positive and Officers have been working closely with the External Audit team to ensure all aspects of the audit are dealt with promptly.

1.5.3 The audit of the 2019/20 accounts is substantially complete and an unqualified audit opinion is expected to be issued. The 2019/20 Audit Results Report notes that no material errors have been identified in the financial statements.

A number of disclosure errors were identified during the audit and the majority of these have been corrected and are reflected in the Annual Financial Report. The significant adjustments required relate to the following items and are described in more detail in the Audit Results Report:

(a) Disclosure of COVID-19 Grant– Pre 31 March 2020, the Council received £6.8 million of COVID-19 funding from Central Government. This was non-ringfenced funding and as a result should have been recognised in full in Taxation and Non-Specific Grant Income in the Council's Comprehensive Income and Expenditure Statement for 2019/20;

(b) Note 14 - Officers' Remuneration – £50,000 Banding note– A small number of banding errors and differences between the values disclosed in the note and payroll records were identified;

(c) Note 14 – Officers' Remuneration – The Chief Executive's name was not disclosed in the note, despite this being a requirement as he earns over the £150,000 threshold;

(d) Note 14 – Officers' Remuneration – Exit Packages– EY identified three individuals included in the 2019/20 exit package disclosure, who received notification of their exit package in 2018/19. As a result, these individuals should have been included in the 2018/19 financial statements. EY have performed additional procedures to ensure that there were no other errors and identified no other similar occurrences;

(e) Note 15 – Members Allowances– A small number of differences between payroll records and the values disclosed in the financial statements were identified. These have been agreed with management who have amended the financial statements;

(f) Note 17 – Audit Costs– The value disclosed in the draft financial statements was incorrect and has now been updated; and

(g) Note 37 - National Health Services Act 2006 – The winter pressures grant of £1,031,000 was incorrectly omitted from the draft disclosure. This has now been amended by management.

It should be noted that these adjustments do not impact on the Authority's reserves and balances. A copy of the Audit Results Report is attached as Appendix B. A final version of the audited accounts will be circulated to members of the Audit Committee once the final audit is completed.

1.5.4 The 2019/20 Annual Financial Report is attached for consideration and approval as Appendix A to this report. The Statement follows a statutory format as set out in the CIPFA Code.

Annual Financial Report

1.5.5 The main elements of the Annual Financial Report are:

(a) Narrative Statement by the Chief Finance Officer;
(b) The statutory accounts themselves, namely;
- Statement of Responsibilities;
- Comprehensive Income and Expenditure Statement;
- Movement in Reserves Statement;
- Balance Sheet;
- Cash Flow Statement;
- Housing Revenue Account;
- Collection Fund Statement.
- Statement of Accounting Policies adopted when compiling the accounts; and

(c) The Annual Governance Statement.

1.5.6 Each account above is supported by a comprehensive set of supporting and explanatory notes.

Summary

1.5.7 The Authority's Annual Financial Report (the Accounts) is prepared in accordance with statute and accounting Codes of Practice. The Accounts record the Authority's financial position as at 31 March 2020 by way of a series of formal statements such as the Comprehensive Income and Expenditure Statement (CIES), the Movement in Reserves Statement (MiRS), the Balance Sheet and the Cash Flow Statement.

1.5.8 As noted in the Outturn report, the final position of the Authority was £1.087m underspent prior to a transfer to the Strategic Reserve and General Fund Balances. Following the transfer, the General Fund Balance increased from £6.804m to £7.000m. The Housing Revenue Account (HRA) balance as at 31 March 2020 was £7.804m, and Schools Balances were £0.165m. The Council incurred expenditure of £59.080m in the year on its Investment Plan (£35.911m General Fund and £23.169m HRA).

The Statement of Accounts

A summary of the main features of the 2019/20 statutory accounts follows:

1.5.9 The **Comprehensive Income and Expenditure Statement** (page 26) records revenue transactions (for both the General Fund and the Housing Revenue Account) through the Authority's books for the financial year. As its name indicates this account includes the income and expenditure for each service, along with expenditure on precepts and levies, interest paid, investment income, gains and losses on disposal of fixed assets and the costs associated with pensions. It also includes general income from Government Grants, Council Tax and Business Rates.

1.5.10 The surplus or deficit shown on the Comprehensive Income and Expenditure Statement represents accounting convention and it does not impact on the Authority's balances at the year-end. For that reason, the Comprehensive Income and Expenditure Statement needs to be read in conjunction with the **Movement in Reserves Statement** (page 28), which makes a series of further accounting adjustments to arrive at the actual movement in balances in the year.

1.5.11 The Movement in Reserves Statement shows that after these adjustments the General Fund balances have decreased by £1.238m. This decrease in the main relates to a fall in school balances of £1.434m together with an increase in the General Fund balances reserves of £0.196m. The General Fund balance has increased to £7.000m whilst the school balances have reduced to £0.165m. The HRA balance increased by £0.500m (to £7.804m) reflecting the reported under spend. HRA reserves have decreased by £0.748m to £19.102m.

1.5.12 The **Balance Sheet** is set out on (page 30). As the revenue accounts are closed down for the year, the General Fund and HRA balances, along with the capital transactions from the Authority's Investment Plan are transferred to the Authority's Balance Sheet. This represents the final position of the Authority at the end of the financial year, showing the assets that the Authority owns (such as land and buildings), the amounts it is owed (debtors etc) and what it owes to outside bodies and individuals (loans outstanding, creditors etc).

1.5.13 The **Cash Flow Statement** (page 32) shows the movement in cash and cash equivalents during the year.

1.5.14 The **Housing Revenue Account** (page 154) sets out the transactions that are ring-fenced for Council Housing.

1.5.15 The **Collection Fund Statement** (page 163) 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 relating to North Tyneside Council are consolidated into the Authority's Balance Sheet with the surplus/deficit relating to the Authority shown in the Collection Fund Adjustment Account.

Annual Governance Statement

1.5.16 The Annual Governance Statement is a statutory document which is signed by the Elected Mayor, the Chair of the Council, the Chair of the Audit Committee, and the most senior officer of the Authority (the Chief Executive). The purpose of the document is to demonstrate to all stakeholders that the Authority has controls in place to ensure that its business is conducted in accordance with law and proper standards and that public money is safeguarded, correctly accounted for and is used economically, efficiently and effectively. Although the financial management of the Authority is an essential part of the internal control framework, the Statement is not purely concerned with financial issues but also covers the Authority's constitution, corporate governance arrangements, facilitation of policy and decision making.

1.6 Decision options:

The options available are:

(a) To accept the recommendations made in section 1.2.1; or
(b) To reject the recommendations made within this report.

1.7 Reasons for recommended option:

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

1.8 Appendices:

Appendix A: Annual Financial Report for 2019/20
Appendix B: Audit Results Report for 2019/20

1.9 Contact officers:

Janice Gillespie, Head of Resources, Tel 643 5701
Claire Emmerson, Senior Manager Financial Strategy & Planning, Tel 643 8109
Cathy Davison, Principal Accountant, Tel 643 5727

1.10 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) Accounts and Audit Regulations 2015

(b) Revenue budget 2020/21
https://my.northtyneside.gov.uk/sites/default/files/web-page-related-files/Revenue%20Control%20Budget%202020-21.pdf

(c) Investment Plan 2020-25
https://democracy.northtyneside.gov.uk/ieListDocuments.aspx?CId=136&MId=238&Ver=4 (Agenda reports pack - Appendix D(i))

(d) Reserves and Balances Policy
https://democracy.northtyneside.gov.uk/ieListDocuments.aspx?CId=136&MId=238&Ver=4 (Agenda reports pack - Appendix G)

(e) CIPFA Code of Practice 2019/20
Can be inspected at the Authority's offices.

(f) Outturn Report 2019/20
https://democracy.northtyneside.gov.uk/documents/g425/Public%20reports%20pack%2029th-Jun-2020%2018.00%20Cabinet.pdf?T=10

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

As this is a financial report, implications are covered in the body of the report itself and the Audit Results Report attached as Appendix A to this report together with the 2019/20 Annual Financial Report attached as Appendix B to this report.

2.2 Legal

The Authority is required under the Accounts and Audit Regulations 2015 and the Chartered Institute of Public Finance and Accountancy's Code to prepare and approve its audited accounts for the financial year 2019/20 by 30 November 2020.

2.3 Consultation/community engagement

In line with statutory requirements the draft Annual Financial report for the year ended 31 March 2020 was published by 31 August 2020 and was available on the Authority's website.

Members of the public were able to inspect the accounts under the statutory public inspection of accounts period from 6 August 14 September 2020.

2.4 Human rights

The proposals within this report do not have direct implications in respect of the Human Rights Act 1998.

2.5 Equalities and diversity

There are no direct equalities and diversity implications arising from this report.

2.6 Risk management

Potential future financial pressures against the Authority are covered in this report and registered through the Authority's risk management process.

2.7 Crime and disorder

There are no direct crime and disorder implications arising from this report.

2.8 Environment and sustainability

There are no direct environmental and sustainability implications arising from this report.

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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 long-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: 18 November 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.

Further information on NTTC can be found in Note 23 to the accounts Long Term Investments.

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 18 November 2020. The Statement explains how the Authority has complied with the Code and 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

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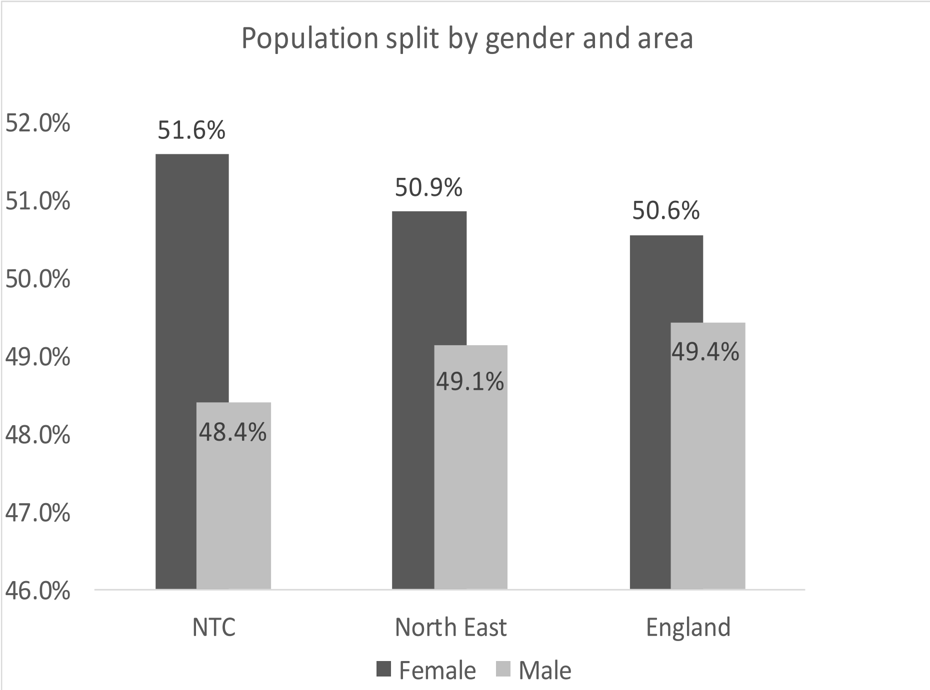
Source: Residents Survey (Sept/ October 2018)

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.

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 the total school deficits has decreased 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, but overall 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 26). The net expenditure of £139.464m (£165.469m 2018/19) is a decrease of £26.005m 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 £8.075m from £176.565m in 2018/19 to £184.640m in 2019/20. This mainly relates to capital grants and contributions and funding from central government for COVID-19 costs.

The Group position shows North Tyneside Trading Company net expenditure of (£1.361m) compared to (£0.576m) in 2018/19 (page 27). In the main the variation of (£0.785m) relates to additional income from rental properties.

Balance Sheet

The Balance Sheet is set out on pages 30 to 31. 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.

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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.

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:

Core Financial Statements

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 26. The group position is presented separately on page 27

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 28 and includes the group position.

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 30 to 31.

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. The Cash Flow for the Authority and Group is shown on page 32.

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 154.

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 163.

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: 18 November 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: 18 November 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)	23,409	(15,077)	8,332
598,651	**(433,182)**	**165,469**	**Cost of Services**	**589,083**	**(449,619)**	**139,464**
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	(1,940)	32,815
0	(176,565)	(176,565)	Taxation and Non-Specific Grant Income (Note 12)	0	(184,640)	(184,640)
645,442	**(610,272)**	**35,170**	**(Surplus)/Deficit on Provision of Services**	**635,859**	**(636,199)**	**(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

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

Group position:

2018/19 Gross Exp £000s	2018/19 Gross Inc £000s	2018/19 Net Exp £000s		2019/20 Gross Exp £000s	2019/20 Gross Inc £000s	2019/20 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)	23,409	(14,674)	8,735
670	(1,246)	(576)	North Tyneside Trading Company (NTTC)	895	(2,256)	(1,361)
599,321	**(434,065)**	**165,256**	**Cost of Services**	**589,978**	**(451,374)**	**138,604**
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	(1,440)	33,315
0	(176,565)	(176,565)	Taxation and Non-Specific Grant Income	0	(184,640)	(184,640)
646,112	**(611,155)**	**34,957**	**(Surplus)/Deficit on Provision of Services**	**636,754**	**(637,454)**	**(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 – Authority and Group

This Statement shows the movement from the start of the year to the end on the different reserves held by the Authority and the 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 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 Council Useable Reserves £000s	Useable Reserves of NTCC £000s	Total Group Useable Reserves £000s	Council Unuseable Reserves Note 33 £000s	Total Group Reserves £000s
Balance at 31 March 2019	**(57,008)**	**(27,154)**	**(8,351)**	**(2,231)**	**(6,969)**	**(101,713)**	**(193)**	**(101,906)**	**18,735**	**(83,171)**
<u>Movement in Reserves during 2019/20</u>										
Total Comprehensive Income & Expenditure	2,558	(2,898)	0	0	0	(340)	(360)	(700)	(45,615)	(46,315)
Adjustments between accounting basis & funding basis under regulations (Note 3)	(561)	3,146	(1,734)	(1,601)	1,153	403	0	403	(403)	0
Decrease/(Increase) in 2019/20	1,997	248	(1,734)	(1,601)	1,153	63	(360)	(297)	(46,018)	(46,315)
Balance at 31 March 2020	**(55,011)**	**(26,906)**	**(10,085)**	**(3,832)**	**(5,816)**	**(101,650)**	**(553)**	**(102,203)**	**(27,283)**	**(129,486)**

	General Fund Balances £000s	Housing Revenue Account Balances £000s	Capital Receipts Reserve £000s	Major Repairs Reserve £000s	Capital Grants Unapplied £000s	Total Council Useable Reserves £000s	Useable Reserves of NTCC £000s	Total Group Useable Reserves £000s	Council Unuseable Reserves Note 33 £000s	Total Group Reserves £000s
Balance 31 March 2018	**(58,035)**	**(28,903)**	**(7,015)**	**(2,231)**	**(4,211)**	**(100,395)**	**20**	**(100,375)**	**21,066**	**(79,309)**
<u>Movement in Reserves during 2018/19</u>										
Total Comprehensive Income & Expenditure	41,801	(6,631)	0	0	0	35,170	(213)	34,957	(38,819)	(3,862)
Adjustments between accounting basis & funding basis under regulations (Note 3)	(40,774)	8,380	(1,336)	0	(2,758)	(36,488)	0	(36,488)	36,488	0
Decrease/(Increase) in 2018/19	1,027	1,749	(1,336)	0	(2,758)	(1,318)	(213)	(1,531)	(2,331)	(3,862)
Balance at 31 March 2019	**(57,008)**	**(27,154)**	**(8,351)**	**(2,231)**	**(6,969)**	**(101,713)**	**(193)**	**(101,906)**	**18,735**	**(83,171)**

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 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'.

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
10,886	16,045	Long Term Investments	23 & 38	7,272	14,840
911	2,969	Long Term Debtors		1,026	5,025
1,125,457	**1,128,655**	**Long Term Assets**		**1,131,779**	**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	37,303	36,849
80,717	**77,055**	**Current Assets**		**124,462**	**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)**

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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)
(2,374)	(2,373)	Other Long-Term Liabilities		(2,276)	(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)
(996,771)	**(996,770)**	**Long Term Liabilities**		**(997,868)**	**(997,866)**
83,171	**82,978**	**Net Assets**		**129,486**	**128,933**
		Financed By:			
(101,713)	(101,713)	Useable Reserves	31	(101,650)	(101,650)
(193)	0	Useable Reserves of Group Entity	31	(553)	0
18,735	18,735	Unuseable Reserves	33	(27,283)	(27,283)
(83,171)	**(82,978)**	**Total Reserves**		**(129,486)**	**(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 26 to 32 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: 18 November 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 and the Group 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.

Group 2018/19 £000s	Council 2018/19 £000s		Notes	Group 2019/20 £000s	Council 2019/20 £000s
(34,957)	(35,170)	Net surplus/(deficit) on the provision of services		700	340
103,927	105,595	Adjustments to net surplus/(deficit) on the provision of services for non-cash movements	39	68,243	70,145
(31,395)	(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)	(34,951)
37,575	**39,030**	**Net cash flows from operating activities**		**33,992**	**35,534**
(26,572)	(28,138)	Net Cash flow from Investing Activities	40	(20,483)	(22,083)
(15,470)	(15,461)	Net Cash flow from Financing Activities	41	13,557	13,557
(4,467)	**(4,569)**	**Net increase/(decrease) in cash and cash equivalents**		**27,066**	**27,008**
14,704	14,410	Cash and cash equivalents at the beginning of the reporting period	25	10,237	9,841
10,237	**9,841**	**Cash and cash equivalents at the end of the reporting period**		**37,303**	**36,849**

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.

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 restatement is in relation to the Authority's position and not the Group position.
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
Total	27,831	27,831	0
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
Total	26,797	26,797	0

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
Total	24,570	24,570	0
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)
Total	(1,742)	(1,742)	0

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;

- 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; and
- 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.

The Authority as Lessee

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).

The Authority as Lessor

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

Benefits Payable during Employment
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.

Termination Benefits
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.

<u>Post-Employment Benefits (Retirement Benefits)</u>
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.

<u>Recognition</u>

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.

<u>Measurement</u>

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.

<u>De-Minimis Levels</u>

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.

<u>Impairment</u>

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.

<u>Depreciation</u>

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 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.

Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)

Financial assets that are measured at FVOCI 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 arise in other comprehensive income.

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)**

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	Useable Reserves Housing Revenue Account £000s	Useable Reserves Capital Receipts Reserve £000s	Useable Reserves Major Repairs Reserve £000s	Useable Reserves 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 Expenditure and Funding Analysis is in relation to the Council only as the objective of the statement 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	920	1,467	2,387
Central Costs (including support services)	41,684	(33,352)	8,332
Net Cost of Services	**137,588**	**1,876**	**139,464**
Other Income & Expenditure	(135,343)	(4,461)	(139,464)
(Surplus)/Deficit on provision of service	**2,245**	**(2,585)**	**(340)**

Opening General Fund & HRA Balance	(15,707)
Deficit on General Fund & HRA Balance in Year	2,245
Transfers to Earmarked Reserves	(1,507)
Closing General Fund and HRA Balance	**(14,969)**

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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	972	(8,497)
Law & Governance	0	347	(8)	339
Regeneration & Economic Development	323	138	(11)	450
Resources	1,036	443	(12)	1,467
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)**

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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.

Opening General Fund & HRA Balance	(16,243)
Deficit on General Fund & HRA Balance in Year	2,776
Transfers to Earmarked Reserves	(2,240)
Closing General Fund and HRA Balance	**(15,707)**

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 - Authority**	**(111,027)**
(127)	North Tyneside Trading Company	(201)
(107,030)	**Total - Group**	**(111,228)**

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	(147,210)	0	(147,210)
Government Grants & Contributions	(294,283)	(30,049)	(324,332)
Support Services & Recharges	(8,126)	0	(8,126)
Interest and Investment Income	0	(1,766)	(1,766)
Income in relation to investment properties	0	(174)	(174)
Income from Council Tax/ Business Rates	0	(154,591)	(154,591)
Total Income	**(449,619)**	**(186,580)**	**(636,199)**
Employee Expenses	229,174	11,310	240,484
Other Service Expenses	287,645	0	287,645
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	**589,083**	**46,776**	**635,859**
Deficit/(Surplus) on the provision of services	**139,464**	**(139,804)**	**(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/ Business Rates	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 37-55, 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;
- ENGIE; 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 including an assessment of the impact of COVID-19 on valuations.
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 87 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.
COVID-19 Pandemic	In response to the significant public health event posed by the global COVID-19 pandemic the UK Government announced on 23rd March 2020 that measures would be put in place to limit the spread of the virus. All non-essential shops were closed with immediate effect and consequently large parts of the UK economy were shutdown, with many employees furloughed with 80% of their existing salary paid by Government. The financial and social outcomes of this are not yet fully understood, however, it is anticipated that the condition will exist for the short to medium future and that it will have a significant impact upon the UK and global economy. The effects of the pandemic have not had a significant impact on the Authority's financial outturn for 2019/20, though a substantial effect is expected to materialise during 2020/21. At the current time, it is not possible to accurately predict the longevity and severity of COVID-19 and its impact on the economy and the Authority.

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 2022 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 78.

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 78.

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 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.

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	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

* The property valuer employed by Tyne and Wear Pension Fund has included a "material uncertainty" in their valuation report in relation to the Pension Funds property assets. This is in line with the guidance released by RICS on 15 April 2020. This has been disclosed in the financial statements of the Pension Fund and has been reviewed by the Pension Fund's external auditor, who has not qualified the Fund's accounts for this matter. As a result, we are content that the Council's share of the property assets held by the Fund as at 31 March 2020 are not materially misstated.

**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	(174)
34,751	**Total**	**32,815**
0	Intra-group transactions to be excluded	500
34,751		**33,315**

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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	(42,258)
(19,684)	Business Rates Top Up	(17,419)
(16,997)	Non-Ringfenced Government Grants	(6,909)
(21,899)	Capital Grants, Contributions & Donated Assets	(23,140)
(176,565)	**Total**	**(184,640)**

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
0	COVID-19 Local Authority Support Grant	(6,822)
(82)	Other Non-Ringfenced Government Grants (individually under £1.000m)	(87)
(16,997)		(6,909)
	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)
(1,621)	Contributions	(3,669)
(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)
(274)	Adoption Reform Grant	(871)
(843)	Tackling Troubled Families Grant	(808)
0	COVID-19 Local Authority Support Grant	(734)
(4,771)	Other Grants and Contributions (individually under £1.000m)	(6,418)
(282,768)	**Total**	**(289,027)**

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					Remuneration Band	2019/20				
APT&C	LEA Teachers	VA Teachers	Trust Employees	Total		APT&C	LEA Teachers	VA Teachers	Trust Employees	Total
32	5	4	36	**77**	£50,000 - £54,999	26	8	2	40	**76**
13	5	3	23	**44**	£55,000 - £59,999	28	3	3	20	**54**
10	6	5	18	**39**	£60,000 - £64,999	12	3	3	12	**30**
5	6	2	8	**21**	£65,000 - £69,999	3	5	3	6	**17**
4	2	1	6	**13**	£70,000 - £74,999	0	4	2	10	**16**
0	0	0	4	**4**	£75,000 - £79,999	2	1	0	2	**5**
1	1	0	4	**6**	£80,000 - £84,999	0	0	0	2	**2**
1	0	0	3	**4**	£85,000 - £89,999	0	1	0	2	**3**
0	1	0	1	**2**	£90,000 - £94,999	2	1	0	1	**4**
0	1	0	2	**3**	£95,000 - £99,999	0	0	0	1	**1**
0	0	0	1	**1**	£100,000 - £104,999	0	1	0	1	**2**
0	0	0	0	**0**	£105,000 - £109,999	0	0	0	1	**1**
0	0	0	0	**0**	£110,000 - £114,999	0	0	0	1	**1**
0	0	0	0	**0**	£130,000 - £134,999	1	0	0	0	**1**
66	**27**	**15**	**106**	**214**	**Total**	**74**	**27**	**13**	**99**	**213**

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 (Paul Hanson)	153,890	0	0	0	153,890	27,854	**181,744**
Director of Health, Education, Care and Safeguarding	117,782	0	0	0	117,782	21,319	**139,101**
Head of Environment, Housing and Leisure	106,359	0	0	0	106,359	19,251	**125,610**
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	89,635	0	0	0	89,635	16,523	**106,158**
Head of Corporate Strategy & Customer Services	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	**927,367**	0	0	0	**927,367**	**164,818**	**1,092,185**

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 Restated**	**2019/20**	**2018/19 Restated**	**2019/20**	**2018/19 Restated**	**2019/20**	**2018/19 Restated**	**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**

There is a provision for redundancy payments 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	625
166	Special Responsibility Allowances	170
6	Expenses	5
789	**Total**	**800**

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 of 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	85
0	2018/19 additional fee	21
7	Fees payable for the certification of grant claims and returns	5
7	Fees payable for the certification of Housing Benefit grant claims and returns	7
99	Total Authority fees payable	**118**
4	Fees payable to external audit with regard to audit services for North Tyneside Trading Company	4
103	Total Group costs	**122**

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.

Property, Plant and Equipment
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.

Payments
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**

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The £4.005m in the above table relates to debt repayment, paying off the debt on the assets.

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 44).

	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	866
General Housing Stock	579,665
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 44 provides more details of the housing stock.

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 affected 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. The net book value of retail units as at 31 March 2020 was £2.839m and for industrial units the value was £11.340m.

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 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
2,179	Share Capital	2,409
803	Intangible Assets	458
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)
(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**

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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**
(5,159)	Intra group investments excluded	**(7,568)**
10,886	**Long Term Investments - Group**	**7,272**

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 in 2018/19. This decision protects Council taxpayers from any future movements in the value of these shareholdings until such time as the shares are sold or released. In the Balance Sheet the £10.784m previously held in the available for sale reserve, in respect of Newcastle Airport, was released and taken to the financial instruments revaluation reserve.

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**

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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	454
10,237	**Total Group Cash and Cash Equivalents**	**37,303**

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.

	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)**

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(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)
5,159	Intra group transactions	7,558
(101,906)	**Total Group Useable Reserves**	**(102,203)**

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 154-162.

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 159 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
COVID-19 Local Authority Support Grant	Funding received from central government to support the Authority with the additional costs and income lost due to COVID-19
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.
Housing PFI Lifecycle Costs	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.

*** 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 North Tyneside 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)**

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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)**

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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)	Loss (Gain) on revaluation of Financial Instrument	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. The Court of Appeal has subsequently concluded that local authorities were a water reseller rather than an agency, meaning that discounts to tenants should have been passed on. The Authority is now considering the response to the ruling and the actions that need to be put in place.

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			(156,983)
High Needs direct funding deduction			382
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.

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)	9,297	
16,276	North Tyneside Clinical Commissioning Group (Pooled)	16,604	
24,576	**Total Contributions**		**27,548**
	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)		19,873
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**		**27,548**

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				
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
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:

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	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)**

	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**	**91,881**	**91,881**
		Borrowings		
362,624	456,902	PWLB**	381,119	451,185
20,000	33,572	LOBO	63,610	32,050
70,862	70,732	Market Loans	25,162	68,446
453,486	561,206		469,891	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	182,326	PFI Schemes	113,889	175,235
590,759	**763,000**	**Total Financial Liabilities**	**603,018**	**746,154**

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* 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.

PFI Liabilities are classified as Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

Newcastle Airport – Level 3 inputs. 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.

Fair Value of Financial Instruments Carried at Amortised Cost
Where investments and borrowings are not quoted on an active market a Level 1 valuation is not available. To provide a fair value which provides a comparison to the carrying amount a net present value approach has been adopted, which provides an estimate of the value of payments in the future in today's terms as at the Balance Sheet date. Our accounting policy uses early repayment rates to discount the

future cash flows. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments (Level 2), using the following assumptions:

- For loans from the PWLB payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures.
- For non-PWLB loans payable, PWLB premature repayment rates have been applied as proxy to provide the fair value under PWLB debt redemption procedures.
- For loans receivable prevailing benchmark market rates have been used to provide the fair value.
- No early repayment or impairment is recognised.
- Where an instrument has a maturity of less than twelve months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount.

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

The Authority recognises expected credit losses on all its financial assets held at amortised cost or FVOCI, either on a 12 month or lifetime basis. Only lifetime losses are recognised for trade receivables (debtors) held by the Authority. Impairment losses are calculated to reflect expectations that the future cashflows might not take place because the borrower could default on their obligations. Credit risk plays an important role in assessing losses.

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, assessing the credit risk of the counterparty and the duration of the investment. 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 by ensuring that a significant proportion of its borrowings do not mature at any one time.

The maturity structure of all financial liabilities, including borrowing, is as follows:

31 March 2019 £000s	**Liabilities outstanding**	**31 March 2020 £000s**
362,624	Public Works Loans Board	381,119
20,000	LOBO	20,162
70,862	Market Loans	68,610
19,468	Creditors	19,238
117,805	PFI liabilities	113,889
590,759		**603,018**
103,106	Less than 1 year	90,815
16,954	Between 1 and 2 years	21,382
29,863	Between 2 and 5 years	35,305
49,377	Between 5 and 10 years	66,951
391,459	More than 10 years	388,565
590,759		**603,018**

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:

Group 2018/19 £000s	Council 2018/19 £000s		Group 2019/20 £000s	Council 2019/20 £000s
156	156	Interest Received	115	115
(23,621)	(23,621)	Interest Paid	(23,808)	(23,808)
250	250	Dividends Received	1,033	1,533

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

Group 2018/19 £000s	Council 2018/19 £000s		Group 2019/20 £000s	Council 2019/20 £000s
40,120	40,120	Depreciation & Impairment	31,672	31,672
21,138	21,138	Revaluations	10,289	10,289
737	737	Amortisation of intangible assets	814	814
(1,447)	(1,650)	Increase/(Decrease) in Creditors	12,937	12,936
3,281	3,313	(Increase)/Decrease in Debtors	(10,149)	(11,933)
(2,023)	(82)	(Increase)/Decrease in Inventories	(4,121)	(434)
34,971	34,971	Movement in the Pension Liability	17,482	17,482
6,013	6,013	Carrying amount of non-current assets sold	5,671	5,671
1,137	1,035	Other non-cash items charged to the surplus/deficit on the provision of services	3,648	3,648
103,927	**105,595**		**68,243**	**70,145**

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

Group 2018/19 £000s	Council 2018/19 £000s		Group 2019/20 £000s	Council 2019/20 £000s
(7,880)	(7,880)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(6,965)	(6,965)
(23,515)	(23,515)	Any other items for which the cash effects are investing or financing cash flows	(27,986)	(27,986)
(31,395)	**(31,395)**		**(34,951)**	**(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.

Group 2018/19 £000s	Council 2018/19 £000s		Group 2019/20 £000s	Council 2019/20 £000s
(63,050)	(61,450)	Purchase of Property, Plant & Equipment, investment property and intangible assets	(58,336)	(56,907)
(102)	(2,179)	Purchase of short-and long- term investments	0	(2,409)
(120)	(1,209)	Other payments for investing activities	(1,458)	(2,078)
7,882	7,882	Proceeds from the sale of Property, Plant & Equipment investment property and intangible assets	6,968	6,968
2	2	Proceeds from short- and long- term investments	0	0
28,816	28,816	Other receipts from Investing Activities	32,343	32,343
(26,572)	**(28,138)**	**Net Cash Flows from Investing Activities**	**(20,483)**	**(22,083)**

41 Notes to the Cash Flow – Financing Activities

Group 2018/19 £000s	Council 2018/19 £000s		Group 2019/20 £000s	Council 2019/20 £000s
200,486	200,486	Cash receipts of short- and long-term borrowing	106,470	106,470
(211,590)	(211,590)	Repayment of short- and long-term borrowing	(89,801)	(89,801)
(3,676)	(3,676)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(4,014)	(4,014)
(690)	(681)	Other payments for financing activities	902	902
(15,470)	**(15,461)**	**Net Cash Flows from Financing Activities**	**13,557**	**13,557**

42 Inventories

31 March 2019 £000s		31 March 2020 £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, it is the cost of completed properties pending sale on the open market.

43 Events after the Balance Sheet Date

Going Concern

The CIPFA Code confirms that local authority accounts must be prepared on a going concern basis. The COVID-19 restrictions imposed across the UK have created significant issues for many businesses and residents and as a result from April 2020, the Authority's income has been detrimentally impacted. The Government has provided some support for lost income and for the additional expenditure incurred by authorities due to the financial impact of the pandemic. The Authority has received just over £21.9m in additional grant funding to date.

The Authority's year end balances as reported in these financial statements are as follows: -

Date	General Fund	Earmarked reserves
31 March 2020	£7.165m	£47.846m

The Authority has carried out an assessment of the impact of COVID-19 on its future finances and is satisfied that there is no material uncertainty relating to the Authority's going concern. Through our assessment the Authority has identified the following in relation to reductions in revenue in 2020/21: -

Reductions in revenue relating to:

1. Adult Social Care – £0.110m
2. Children's Services – £0.760m
3. Environment Housing and Leisure – Highways - £1.9m
4. Environment Housing and Leisure – Leisure and Cultural related - £5.6m
5. Commissioning and Asset Management – Catering and Property - £3.5m
6. Finance, Corporate Services, Strategy and Governance - £1.5m

Additional costs relating to COVID-19 have been estimated at £16.5m. The majority of additional costs are in Adult and Children's Social Care, including £4.2m in provider support payments, £3.8m care market costs and £1.3m relating to supporting looked after children. Other costs are forecast including Finance and Public Health £1.8m, reduced ability to deliver planned savings of £2.7m and Personal Protective Equipment of £0.1m.

Therefore, as set out above the overall COVID-19 related costs are currently estimated at £29.8m. To date, grant income of £21.9m has been received from the Government, in relation to the Local Support, Infection Control and Test Track and Trace Grant resulting in a total forecast COVID-19 pressure of £7.9m. The Authority is currently waiting to receive confirmation of £2.463m grant allocation in relation to income compensation following the initial submission made in September. The Senior Leadership Team is currently considering further mitigating actions to balance the 2020/21 outturn position.

The Authority along with authorities across the region entered Tier 2 restrictions on 18 September 2020 due to the rising number of Coronavirus cases across the North East. The MHCLG returns submitted in September for both expenditure and income reflected the financial impact of the tightened restrictions.

On 31 October the Government announced its intention to lay before Parliament the implementation of further national restrictions which if approved would come into effect from 5 November 2020 to 2 December 2020. The main financial risks that the Authority has identified due to these increased restrictions is in relation to lost income across Environment Housing and Leisure, specifically for Sport and Leisure and Cultural Services. The Authority is also anticipating that there will be additional expenditure within Adults and Children's services.

The Authority had already secured additional funding from the Government in relation to the Tier 2 restrictions which would cover some of the financial risks. It is anticipated that further funding will be made available to offset some of the additional costs of the national restrictions.

Despite showing a forecast overspend of £7.9m the Authority do not expect to end the year with a material overspend. It is expected that additional pressures can be contained through mitigating actions taken through senior management actions and additional grant funding.

Any deficit would be funded from the Strategic Reserve, the General Fund balance would be maintained at a level in accordance with the Authority's Reserves and Balances policy.
There is a risk in relation to Business Rates and Council Tax income and any potential impact is being closely monitored. Any impact from a reduction in the Collection Fund would take effect in 2021/22 therefore no change is anticipated in 2020/21.

The 2021/22 Budget is being prepared on the basis of a roll over settlement. Whilst the Authority's Medium-Term Financial Plan assumptions have remained consistent, additional work has been undertaken to look at a number of scenarios relating to the available resources on a best, middle and worst case.

The mitigating factor underpinning the going concern assessment is that the Authority continues to have available General Fund reserves and balances of a strong level. At the end of 2021/22 these are estimated to be in the region of £48.549m. Additionally, the Authority's cash flow forecasts anticipate that cash balances will remain in a positive position for at least 12 months following approval of these financials statements and do not forecast a need to borrow. The Authority has undertaken cash flow modelling through to November 2021 which demonstrates the Authority's ability to work within its Capital Financing Requirement and Cash management framework.

The Authority is therefore satisfied that as a result of this cash flow modelling, which has opted for a highly cautious approach, it shows that the Authority will maintain a strong positive cash balance for the going concern period.

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

44 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**

45 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 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**

46 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.

47 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**

48 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)**

49 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**

50 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**

51 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)

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52 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**

53 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).

54 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.

55 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 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.

56 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

57 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).

58 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**

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59 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**

60 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).

61 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 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.

I

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).

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).

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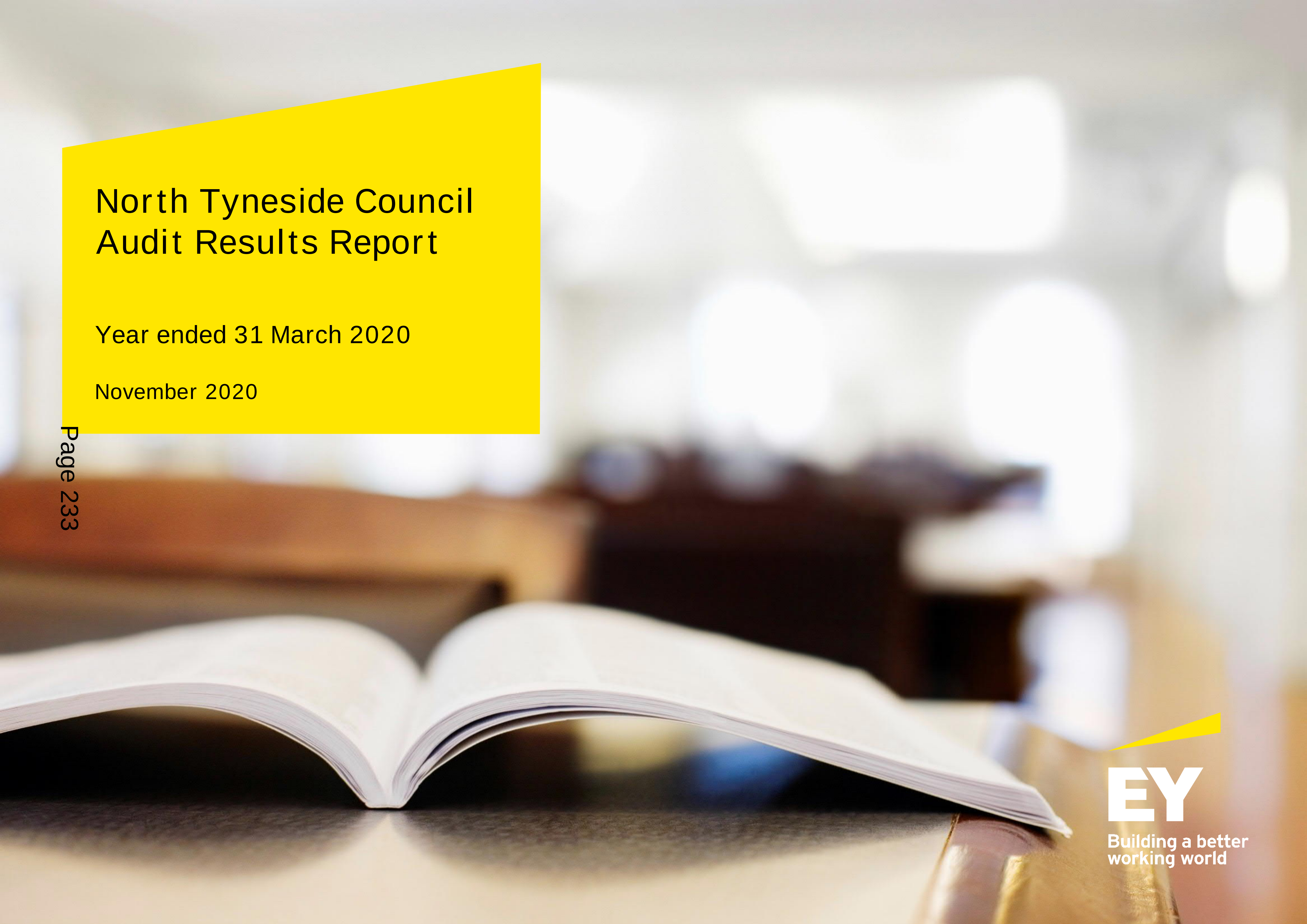

North Tyneside Council
Audit Results Report

Year ended 31 March 2020

November 2020

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

November 2020

Dear Audit Committee Members

We are pleased to attach our Audit Results Report for the forthcoming meeting of the Audit Committee. This report summarises our conclusions in relation to the audit of North Tyneside Council ("the Council") for 2019/20.

We have substantially completed our audit of the Council for the year ended 31 March 2020, with only the areas highlighted in Section 1 outstanding. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form included in Section 3, before the accounts publication date of 30 November 2020. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 18 November 2020.

Yours faithfully

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

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As part the Auditor Engagement process, we have agreed with you the respective responsibilities of auditors and audited bodies. Copies of the Engagement Letter and Terms and Conditions of our appointment are available from the Chief Executive.

The Terms and Conditions of our appointment contained within the Engagement Letter sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

Scope update

In our updated Audit Planning Report, presented to the 29 July 2020 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. This included details around how we were planning to adapt our approach to reflect the impact of the Covid-19 pandemic. We carried out our audit in accordance with this plan, with the following exceptions:

- Information Produced by the Entity (IPE) - We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk:
    - Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
    - Agreed IPE to scanned documents or other system screenshots.
- Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19 - The changes to audit risks, audit approach and auditor reporting requirements, set out in our Audit Planning Report, changed the level of work we needed to perform. This has resulted in additional internal consultations being required for every audit, The purpose of the consultation is to ensure that appropriate disclosures are made in both the audit report and the Council's financial statements about the impact of Covid-19 on the Council.
- Materiality update Council and Group - We updated our planning materiality assessment using the draft 2019/20 financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £11.3 million (Audit Planning Report £11.6 million). This results in updated performance materiality, at 75% of overall materiality, of £8.5 million, and an updated threshold for reporting audit differences to the Audit Committee of £0.56 million. It should be noted that the materiality levels used for the Group audit are in line with those used for the Council.

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Status of the financial statements audit

We have substantially completed our audit of the Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our updated Audit Planning Report. Subject to satisfactory completion of the following outstanding items, we expect to issue an unqualified opinion on the Council's financial statements in the form which appears in Section 3. However until work is complete, further amendments may arise.

Outstanding Items

- Completion of the Going Concern consultation process;
- Completion of EY actuarial review of the impact of changes in the McCloud ruling on the Council's pension liability;
- Completion of procedures required by the National Audit Office ("NAO") regarding the Whole of Government Accounts submission;
- Review of the final financial statements, including all adjustments made; and
- Final review of audit work completed and audit completion procedures.

Executive Summary

Audit differences

We identified one unadjusted audit difference in the draft financial statements which management has chosen not to adjust. This relates to the valuation of Property, Plant and Equipment and more detail can be found in Sections 2 and 4 in relation to this matter. The value of this unadjusted item is £968,000 and is therefore immaterial to the financial statements.

We have also identified a number of audit differences which have been adjusted by management. Details can be found in Section 4 of this report.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. Through our audit work, we have however identified four control observations that we wish to bring to your attention. These observations are:

- Lack of evidenced review of journals greater than £500,000;
- Accruals greater than the de-minimis level of £1,000 not being made;
- Total value of members allowances differing between the draft financial statements and the Council’s website; and
- The 2019/20 Better Care Fund agreement not being signed.

Further detail on each of these control findings can be viewed in Section 7 of the report.

Areas of audit focus

Our updated Audit Planning Report identified key areas of focus for our audit of the Council’s financial statements This report set out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in Section 2 of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues;
- You agree with the resolution of the issue; and
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Executive Summary

Objections

We have received no objections to the 2019/20 financial statements from members of the public.

Independence

Please refer to Section 8 for our update on Independence.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report, we identified the following significant risk:

- Financial sustainability

We have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Other reporting issues

We have the following matters to highlight:

- WGA - We are required to perform procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. At the time of writing the NAO has not yet released the auditor instructions for this work and as a result we are unable to conclude on this area; we will issue our certificate of completion in respect of the 2019/20 audit once we have completed our procedures and reporting on the Council's Whole of Government Accounts submission.
- Accounts Inspection period – The initial accounts inspection period set by the Council was for a period of 10 working days, rather than the required 30 working days. This was subsequently identified and the Council advertised the inspection period again, to ensure that it was for a period of at least 30 working days.

We have no other matters to raise at the time of writing this report.

02 Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition

Significant Risk

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.

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What judgements are we focused on?

The main judgements we focussed on were:

- The recognition of grant income that contains terms and conditions;
- Recognition of income and expenditure around year end, in particular focussing on expenditure accruals and manual debtors that require management judgement to be applied before they are recognised in the financial statements; and
- Management's judgement in capitalising expenditure as Property, Plant and Equipment.

What did we do?

- We reviewed and tested revenue and expenditure recognition policies, including consideration of the recognition of grant income;
- We reviewed, discussed with management, and tested (where appropriate) any accounting estimates on revenue or expenditure recognition, such as manual debtors and expenditure accruals, for evidence of bias;
- We tested grant income with terms and conditions attached to ensure that where management judgements had been made relating to the recognition of the income, all terms and conditions had been achieved;
- We tested capital expenditure incurred during the year to ensure that it was correctly classified as capital expenditure and should not instead have been included as revenue; and
- We reviewed a sample of transactions recorded in the ledger and payments made from the bank account post year-end and confirmed that the associated income and expenditure has been recorded in the correct period.

What are our conclusions?

At the time of writing this report, our work in this area has not identified any material misstatements arising from fraud in revenue and expenditure recognition.

Significant risk

Misstatements due to fraud or error

Significant Risk

What is the risk?

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.

What judgements are we focused on?

Our work in this area focussed on reviewing manual journal entries, through the use of our data analytics tools, as this is the way in management would most easily be able to manipulate accounting records.

What did we do?

- We identified fraud risks during the planning stage of our audit;
- We developed our understanding of the oversight given by those charged with governance over management's processes over fraud;
- We considered the effectiveness of management's controls designed to address the risk of fraud;
- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- We reviewed accounting estimates for evidence of management bias (as noted on the previous page relating to revenue and expenditure recognition); and
- We evaluated the business rationale for any significant unusual transactions.

What are our conclusions?

At the time of writing this report, our work in this area has not identified any transactions during our audit which appeared unusual or outside of the Council's normal course of business.

We have not identified any instances of inappropriate judgements being applied.

We have not identified any instances of inappropriate journals.

Significant risk

Valuation of land and buildings

Significant Risk

What is the risk?

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, 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.

What judgements are we focused on?

The assumptions underlying the management's valuation of land and buildings at year end; and

The robustness of the data underlying the valuations and the overall methodology used by the Council's valuer, Capita.

What did we do?

- We have considered 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;
- We have sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- We have engaged our internal valuers to review the market yields used by the valuer to ensure they are in line with our expectations;
- We have considered the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the CIPFA Code;
- We have reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- We have considered changes to useful economic lives as a result of the most recent valuation; and
- We have reviewed the disclosures made by the Council in relation to the material uncertainty clauses to ensure they provide sufficient detail to the user of the financial statements.

What are our conclusions?

At the time of writing this report, our work in this area has not identified any material misstatements arising from the valuation of land and buildings.

However, we have identified two matters that are included on the following page.

Valuation of land and buildings (Significant risk)

Further details on procedures/work performed

Use of RICS BCIS Indices

The Council's external valuer performed a number of their 2019/20 property valuations as at 1 April 2019. This includes a number of specialised assets that follow a Depreciated Replacement Cost (DRC) methodology, which utilise the RICS BCIS indices. The BCIS indices used by Capita as part of the DRC valuation are as at 1 April 2019. However, as the asset values disclosed in the Balance Sheet are as at 31 March 2020, we have updated the DRC calculations to use the revised BCIS indices as at 31 March 2020.

After using the 31 March 2020 BCIS indices we have calculated a reduction in the value of assets of £968,000, when compared to the values that are disclosed in the financial statements.

This has not been amended by management in the financial statements, as the value disclosed is not materially different.

Material uncertainty

The Council's external valuer, Capita, disclosed a 'material uncertainty' in its year end valuation report in line with RICS guidance. The Council included this 'material uncertainty' disclosure within their financial statements. As part of our work we considered the extent of the valuation uncertainty and noted the following:

- Approximately 70% of the Council's assets are valued at DRC. Given DRC valuations are not informed by evidence of relevant market conditions which could have been impacted by Covid-19, we are satisfied that the outbreak of Covid-19 is unlikely to have led to significant uncertainty in the valuation.
- Although the Council does have a limited number of assets where the valuation is more reliant on market evidence we were satisfied, based on our detailed testing, that the values included in the draft financial statements are supportable. We would also not expect a significant movement at 31 March 2020 in these assets.

Based on the work we have undertaken we are satisfied that the carrying value of PPE disclosed in the financial statements is not materially misstated. We did, however, request some changes to be made to the Council's disclosure of the RICS material uncertainty clause in the financial statements.

Areas of Audit Focus

We identified other areas of the audit, that were not classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements.

What was the risk/area of focus?	What were our conclusions?
Going concern and the impact of Covid-19 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.	We have performed the following procedures to address this risk: • Tested management's cash flow forecast up to 30 November 2021, including challenging the assumptions made by management, to ensure that the forecast position is prudent and realistic; • Reviewed management's overall going concern assessment, including reviewing revisions to the medium term financial strategy (MTFS) and the level of reserves held by the Council; and • Reviewed and challenged the going concern and Covid-19 narrative disclosures made by management in the financial statements to ensure that they were appropriate and represent a true and fair view of the Council's position. Based on the procedures performed we are content that the Council will have a positive cash balance through to 30 November 2021, which is at least 12 months from the date the audit opinion is signed. In addition, we are also content that the assumptions used by management as part of their going concern assessment are prudent and realistic. However, we identified some improvement points in the going concern and Covid-19 disclosures included in the draft financial statements. We are currently working with management to ensure that sufficient detail regarding both the financial and operational impact of Covid-19 are included in the financial statements. We will update the Audit Committee on progress on 18 November 2020.

Areas of Audit Focus

We identified other areas of the audit, that were not classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements.

What was the risk/area of focus?	What were our conclusions?
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. Per the draft financial statements at 31 March 2020, this totalled £465 million. 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 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 have performed the following procedures to address this risk: • Liaised 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; • Assessed the work of the Pension Fund actuary (AON Hewitt) including the assumptions they 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 • Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to the pension disclosures. In July 2020, the Ministry of Housing, Communities and Local Government (MHCLG) published its consultation proposals to remove age discrimination from the LGPS. This was as a result of both the Sargeant and McCloud judgments that the Council first accounted for in 2018/19. It is generally accepted that the proposals contained in the consultation provide updated information on the Sargeant and McCloud judgements that need to be considered as part of the year end actuarial valuation for 31 March 2020. However, as these proposals were published after the valuation was produced, it was deemed likely that the proposals were not adequately reflected in this valuation. A detailed review of the valuation produced for the Council has therefore been performed by EY's actuaries in order to ensure that the year end valuation is not materially misstated. At the time of writing, these procedures have not yet been completed. We will provide the Audit Committee with an update on 18 November 2020.

Areas of Audit Focus

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

What was the risk/area of focus?	What were our conclusions?
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 reviewed the detailed quantitative assessment produced by management, which concluded that group financial statements were required for the first time in 2019/20, due to an increase in activity at the Council's subsidiaries. Our review of the quantitative assessment focussed on the values that would be included in group financial statements if they were prepared, as well as the qualitative assessment, which focussed on the other factors, such as such as whether the Council is exposed to any commercial risk through its involvement with group entities. This review included: • Agreeing all values included in the quantitative assessment to audited financial statements; • Assessing the qualitative assessment based on our knowledge of the Council and the wider sector; and • Detailed review of the CIPFA Group Accounting guidance to ensure that all required elements had been considered. Following our review we agree with management's assessment that it is necessary for the Council to prepare group financial statements for the first time in 2019/20.

03 Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH TYNESIDE COUNCIL

Opinion

We have audited the financial statements of North Tyneside Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Comprehensive Income and Expenditure Statement for the year ended 31 March 2020;
- Movement in Reserves Statement for the year ended 31 March 2020;
- Balance Sheet as at 31 March 2020;
- Cash Flow Statement for the year ended 31 March 2020;
- Notes to the Core Financial Statements A, 1 to 43;
- Housing Revenue Account - Income and Expenditure Statement for the year ended 31 March 2020, the Movement on the Housing Revenue Account Statement and the related notes 44 to 55; and
- Collection Fund Statement for the year ended 31 March 2020 and the related notes 56 to 61.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of North Tyneside Council as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Draft audit report

Our opinion on the financial statements (continued)

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the Annual Financial Report set out on pages 2 to 20, other than the financial statements and our auditor's report thereon. The Head of Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, we are satisfied that, in all significant respects, North Tyneside Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Draft audit report

Our opinion on the financial statements (continued)

Matters on which we report by exception

We report to you if:

- in our opinion the Annual Governance Statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Head of Resources

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 25, the Head of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Head of Resources is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or have no realistic alternative but to do so.

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

Draft audit report

Our opinion on the financial statements (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether North Tyneside Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether North Tyneside Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

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

Draft audit report

Our opinion on the financial statements (continued)

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of North Tyneside Council as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Reid (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

Edinburgh

The maintenance and integrity of the North Tyneside Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

Corrected misstatements and disclosure issues

We highlight the following misstatements in the disclosures identified during the audit. These have been corrected by management:

Council and Group financial statements

- Disclosure of Covid-19 Grant – Pre 31 March 2020, the Council received £6.8 million of Covid-19 funding from Central Government. This was non-ringfenced funding and as a result should have been recognised in full in Taxation and Non Specific Grant Income in the Council's Comprehensive Income and Expenditure Statement for 2019/20.
- Note 14 - Officers' Remuneration – £50,000 Banding note – A small number of banding errors and differences between the values disclosed in the note and payroll records were identified.
- Note 14 – Officers' Remuneration – The Chief Executive's name was not disclosed in the note, despite this being a requirement as he earns over the £150,000 threshold.
- Note 14 – Officers' Remuneration – Exit Packages – We identified three individuals included in the 2019/20 exit package disclosure, who received notification of their exit package in 2018/19. As a result these individuals should have been included in the 2018/19 financial statements. We have performed additional procedures to ensure that there were no other errors and identified no other similar occurrences.
- Note 15 – Members Allowances – A small number of differences between payroll records and the values disclosed in the financial statements were identified. These have been agreed with management who have amended the financial statements.
- Note 17 – Audit Costs – The value disclosed in the draft financial statements was incorrect and has now been updated.
- Note 37 - National Health Services Act 2006 – The winter pressures grant of £1,031,000 was incorrectly omitted from the draft disclosure. This has now been amended by management.

There were also a small number of typographical and consistency errors identified in the draft financial statements. All differences have been amended by management.

Group financial statements only

- Cash Flow Statement – The draft financial statements did not include a Group Cash Flow Statement. This has now been updated by management.
- Note 23 – Long Term Investments - The draft financial statements incorrectly included an intra group investment of £2,991,000 between the Council and North Tyneside Trading Company in the Group Balance Sheet. This has been discussed with management and the financial statements have been amended to remove this value.

Audit Differences

Summary of unadjusted differences

In addition we highlight the following unadjusted difference that has not been amended by management:

- Note 19 - Property, Plant and Equipment – BCIS Indices difference – The Council's valuer, Capita, performed some of their 2019/20 valuations as at 1 April 2019. This includes a number of specialised assets that follow a Depreciated Replacement Cost methodology, which utilise the RICs BCIS indices. The BCIS indices used by Capita are as at 1 April 2019, however these indices have been updated as at 31 March 2020. When the indices at 31 March 2020 are used we identified a decrease of £968,000 in the value of these assets.

Uncorrected misstatements 31 March 2020 (£000)	Effect on the current period:	Balance Sheet (Decrease)/Increase				
	Comprehensive income and expenditure statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)	Reserves Debit/(Credit)
Revaluation Reserve						968
Property, Plant and Equipment			(968)			

There are no other amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the Council or Group financial statements for the year ended 31 March 2020.

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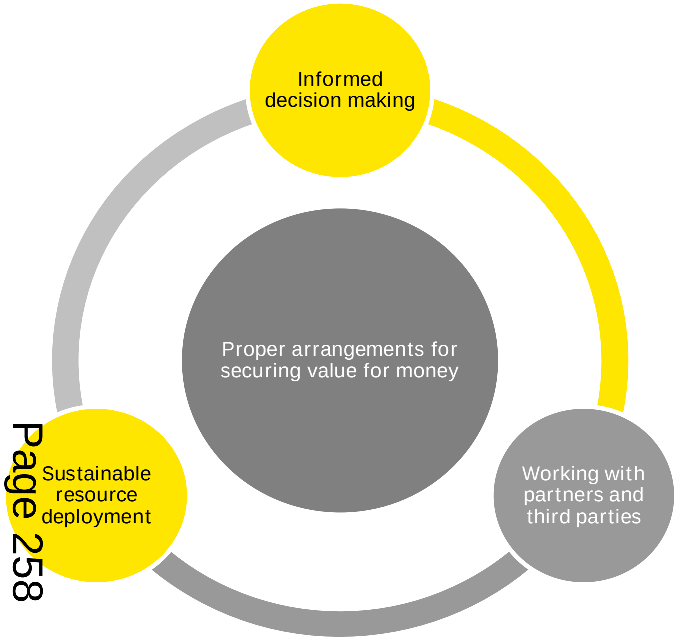
05 Value for Money

Value for Money



Background

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

Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19.

This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019/20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019/20 VFM arrangements conclusion.

Based on our procedures we have not identified an significant failure in arrangements at the Council due to Covid-19 and as a result we do not have a VFM significant risk in relation to Covid-19.

Overall conclusion

We identified one significant risk in relation to value for money arrangements as part of our audit planning work. The table on the following page presents our findings in response to the risk in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.

Based on the work performed we expect to have no matters to report about your arrangements in relation to the significant risk highlighted in our Audit Planning Report.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined 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 enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Financial Sustainability 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. 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.	Deploy resources in a sustainable manner	We have completed the following work in this area: • We have selected a sample of savings plans and assessed their reasonableness, including testing of the assumptions used; • We have discussed the specific plans in place for Health, Education, Care and Safeguarding to understand how the Council plans to control the overspends in this area; • We have reviewed 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 • We have reviewed the Medium Term Financial Strategy (MTFS) and tested the reasonableness of a sample of the assumptions used. Our testing identified that the Council delivered an underspend of £1.1 million against budget in 2019/20, which includes one off dividend payments from Newcastle Airport and Kier North Tyneside of £1 million. The Council also delivered 90% of proposed savings in 2019/20. We have also reviewed the Council’s reserves and compared them to other similar sized Council’s from across the Country. Based on this assessment we are satisfied that the Council has sufficient reserves in order to allow it to provide its statutory functions. The Covid-19 pandemic has had a significant impact on the Council’s finances going forward, with the Council reporting a potential pressure of £11.4 million for 2020/21 to Cabinet in September 2020. However, the Council do have plans to mitigate this pressure. We have reviewed and challenged management’s assessment, with a particular focus on the assumptions that have been used, and we are content that the revisions made by management to the plan are prudent and achievable.

06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Narrative Statement with the audited financial statements. We are satisfied that the Narrative Statement is consistent with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance. We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

In addition to our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

At the time of writing this report, the relevant NAO guidance for the completion of WGA returns has not yet been released. As a result we have not yet commenced our work. However, when our work is complete we will report back to the Committee any material findings.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Notice of Public Inspection

Under the Accounts and Audit Regulations 2015 members of the public can, for a period of 30 working days, ask questions of the Council about the draft financial statements. The Council is required to advertise the dates set for the inspection period, so members of the public are aware. However, it was identified that for the 2019/20 draft financial statements, the initial inspection period was incorrectly set at 10 working days.

This was subsequently identified and the Council advertised a new inspection period. We are now satisfied that the Council has implemented an inspection period of at least 30 working days in relation to the 2019/20 draft financial statements.

Other matters

As required by ISA (UK) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council’s financial reporting process. We have nothing to report to you in relation this.

07 Assessment of Control Environment

Assessment of Control Environment

Assessment of Control Environment

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements. However, we have identified four areas where processes and controls can be further enhanced to support the robustness of the overall control environment at the Council:

Control observation	Recommendation
Lack of evidenced review of journals greater than £500,000 – It is our understanding that all journals posted that are greater than £500,000 in value are reviewed and authorised by a member of the North Tyneside Council finance team, including the journals posted by Engie. However, we were unable to identify any formal evidence of this review taking place.	We recommend that evidence of the review of all journals above £500,000 is retained.
Accruals de minimis level – The Council has an accruals de minimis level of £1,000, which means all items above this value should be accrued. However, as part of our audit procedures we identified a small number of immaterial transactions above this value that relate to 2018/19. This suggests that the accruals de minimis level is not followed in all instances.	We are aware from our audits of other similar sized Local Authorities that their accruals de minimis level is higher than £1,000. We would therefore recommend that the Council explores increasing the de minimis level in order to enhance the efficiency of this process and reduce the number of missed accruals.
Members allowances – The Council is required to disclose the total value of members allowances in the financial statements and also separately on the Council's website. Although, the information on the Council's website is not subject to audit, we have identified differences between the draft financial statements and the values disclosed on the website.	We recommend that the Council performs a consistency review between the website and the draft financial statements before the information is posted.
Better Care Fund agreement – The Better Care Fund Agreement between the Council and North Tyneside Clinical Commissioning Group (CCG) for 2019/20 was not signed. However, it should be noted that the Council and the CCG did follow the instructions set out in the draft agreement during 2019/20.	We recommend that the Council ensures all formal agreements are signed.

08 Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our updated Audit Planning Report presented in July 2020. However, it should be noted that we also perform the audit of the Council's subsidiary company, North Tyneside Trading Company and its subsidiaries.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 18 November 2020.

Independence

Fee Analysis

	Planned fee 2019/20	Final fee 2018/19
	£	£
Total Fee – Code work (Scale Fee)	145,500	85,200
Total Fee – Code work (Variation)	11,793*	26,250
Total Audit fee	157,293	111,450
Total Fee – North Tyneside Trading Company and subsidiaries	27,000	3,800
Total additional group fees	27,000	3,800
Non-audit work – Housing Benefit certification	12,800	6,550
Non audit-work – Other certification work	10,500	4,925
Total other non-audit services	23,300	11,475
Total fees	207,593	126,725

As part of our reporting on our independence, we set out alongside a summary of the fees you have paid us in the year ended 31 March 2020.

We confirm that we have undertaken the certification of the Council's Housing Benefits claim form, Teachers Pensions claim and Pooling of Housing Capital Receipts claim. This constitutes non audit work, which is work that is not carried out under the Code. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

* In our updated Audit Planning Report, dated July 2020, we noted the planned fee in the table would require variation to account for the impact of the Covid-19 pandemic on our audit, as we have been required to perform additional procedures in order to allow us to conclude on the Council's financial statements. The fee included above is an indicative fee and we will agree a finalised fee variation with management after the completion of the audit and report this back to the Audit Committee.

In our Audit Planning Report, presented to the Audit Committee in July 2020, we set out a number of key factors that have resulted in the need for us to increase our audit fees for the 2019/20 audit year. We have set our below an overview of the 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 and 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. To support the increasing regulatory focus, we invest in our audit quality infrastructure. As a firm our compliance costs have doubled over the past five years.

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.

Other communications

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 end 30 June 2019:

https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf

Financial Reporting Council (FRC) – Major Local Audits – Audit Quality Inspection

On an annual basis the FRC reviews each audit firm who undertake local audits. The review process involves the FRC selecting a range of audit files and challenging the work performed by the firm in reaching their audit opinion. The results and the key findings from their review of 2018/19 audits can be viewed at

https://www.frc.org.uk/getattachment/da3446de-8d37-4970-828d-e816d7c0826c/FRC-LA-Public-Report-30-10-20.pdf

09 Appendices

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet are:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

We have tested each of these assertions substantively for all material balances included in the Balance Sheet. This is the same as the approach we adopted in the prior year. The material Balance Sheet items we have tested are:

- Property, Plant and Equipment
- Long Term Investments
- Short Term Debtors
- Cash and Cash Equivalents
- Short Term Borrowing
- Short Term Creditors
- Finance Lease & PFI Creditors
- Provisions
- Long Term Borrowing
- Pension Liability
- Capital Grants Receipts in Advance
- Usable Reserves
- Unusable Reserves

Appendix B

Summary of communications

Date	Nature	Summary
9 March 2020	Meeting	Senior members of the audit team, met with the management team to discuss key issues at the Council and plan the 2019/20 year end audit.
9 March 2020	Meeting	Senior members of the audit team, met with the Audit Committee Chair to discuss the key areas of focus for the Committee, as well as potential audit and accounting issues that may arise during the 2019/20 year end audit.
25 March 2020	Report	The Audit Planning Report, including confirmation of independence, was distributed to the Audit Committee in advance of the March 2020 meeting. However, due to the Covid-19 pandemic this committee was cancelled and as a result the Audit Planning Report was not formally presented.
27 March 2020	Meeting	Audit Partner met with the Council's Chief Executive to to discuss key issues at the Council and plan the 2019/20 year end audit.
29 July 2020	Report	An updated Audit Planning Report, which contained additional detail in relation to the impact of Covid-19 on the audit was presented to the Audit Committee.
28 October 2020	Meeting	Audit close meeting with the management team to discuss the preliminary findings of the audit.
18 November 2020	Report	The Audit Results Report, including confirmation of independence, was presented to the Audit Committee.

In addition to the above specific meetings and reporting, the audit team met with the management team multiple times throughout the 2019/20 audit year to discuss audit progress and the latest developments at the Council.

Appendix C

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	What is reported?	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 signed contract
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Updated Audit Planning Report – presented July 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Updated Audit Planning Report – presented 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 – presented November 2020

Appendix C

		Our Reporting to you
Required communications	What is reported?	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 – November 2020
Misstatements	• Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management	Audit Results Report – November 2020
Subsequent events	• Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit Committee – November 2020
Fraud	• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility.	Audit Committee – November 2020 Audit Results Report – November 2020

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the Council'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 Council	Audit Results Report – November 2020
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 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 Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place. • Relationships between EY, the company and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors' objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit	Updated Audit Planning Report – July 2020 Audit Results Report – November 2020

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Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	Audit Results Report – November 2020
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • 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	We have asked management and those charged with governance. We have not identified any material instances of non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	Audit Results Report – November 2020
Written representations we are requesting from management and/or those charged with governance	• Written representations we are requesting from management and/or those charged with governance	Audit Results Report – November 2020
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report – November 2020

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Group Audits	• An overview of the type of work to be performed on the financial information of the components • An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components • Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work • Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted • Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Audit Results Report – November 2020
Auditor's report	• Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – November 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	Updated Audit Planning Report – July 2020 Audit Results Report – November 2020
Certification work	• Summary of certification work	Certification Report – March 2021

Management representation letter

Management Rep Letter

Ernst & Young LLP
Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JD

Dear Sirs

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This letter of representations is provided in connection with your audit of the Group and Council financial statements of North Tyneside Council ("the Group and Council") for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the Group and Council financial statements give a true and fair view of the Group and Council financial position of as of 31 March 2020 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and Council, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and for the Council.

We understand that the purpose of your audit of our Group and Council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and the Council, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.

3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.

4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 for the Group and Council that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

Management representation letter

Management representation letter

5. We believe that the effect of the unadjusted audit difference, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented is immaterial to the Group and Council financial statements taken as a whole. We have not corrected the difference identified and brought to our attention by the auditor due to the fact it is immaterial.

B. Non-Compliance with Law and Regulations, including Fraud

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the Group and Council financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Group or Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the Group and Council financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Council, Cabinet and Audit Committee held through the year to the most recent meeting on the following date: X November 2020
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the Group and Council financial statements.

Management representation letter

Management representation letter

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the Group and Council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the Group and Council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in the Group and Council financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than those described in Note 43 to the Group and Council financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the Group and Council financial statements or notes thereto.

F. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Going Concern

1. Note 43 to the Group and Council financial statements discloses all the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

Management representation letter

Management representation letter

I. Use of the Work of a Specialist

1. We agree with the findings of the property valuers that we engaged to evaluate the valuation of Council Dwellings and Other Land and Buildings and the actuary that we engaged to evaluate the valuation of the pension liability and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the Group and Council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

J. Estimates

Valuation of Council Dwellings and Other Land and Buildings

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the significant assumptions used in making the valuation of Council Dwellings and Other Land and Buildings appropriately reflect our intent and ability to carry out the valuation on behalf of the entity.
3. We confirm that the disclosures made in the Group and Council financial statements with respect to the accounting estimate are complete, including the effects of the COVID-19 pandemic on the valuation of Council Dwellings and Other Land and Buildings and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
4. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

Valuation of Pension Liability

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate has been consistently applied and is appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the significant assumptions used in creating the valuation the pension liability appropriately reflects our intent and ability to carry out the valuation on behalf of the entity.
3. We confirm that the disclosures made in the Group and Council financial statements with respect to the accounting estimate are complete, including the effects of the COVID-19 pandemic on the valuation of the pension liability and are made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

Yours faithfully,

____

Head of Resources

____

Chair of the Audit Committee

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.
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ITEM 6

Title: Annual Governance Statement Update

North Tyneside Council
Report to Audit Committee
Date: 18 November 2020

Report from Service:	Finance	
Report Author:	Janice Gillespie, Head of Resources	**(Tel: 0191 643 5701)**
Wards affected:	All	

PART 1

1.1 Purpose:

1.1.1 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)(a) of the Accounts & Audit Regulations 2015 which require the Authority to publish an AGS.

1.1.2 The purpose of this report is to advise the Audit Committee of the outcome of the review of the Authority's system of internal control as presented in the AGS (Appendix A). The review will assist the Audit Committee in considering the effectiveness of the Authority's arrangements for the governance of its affairs, including arrangements for management of risks and systems for internal control.

1.2 Recommendation(s):

1.2.1 It is recommended that the:

(a) Audit Committee note the outcome of the review of the Authority's system of internal control;

(b) Audit Committee consider the draft AGS and approve that it accompanies the Statement of Accounts for 2019/20 and

(c) Audit Committee note the actions proposed in the AGS relating to any governance issues identified and make suggestions about including additional items if considered necessary.

1.3 Forward plan:

1.3.1 This report is included within the annual workplan for the Audit Committee.

1.4 Council plan and policy framework:

1.4.1 The AGS covers all the service responsibilities as identified within the Council Plan.

1.5 Information:

1.5.1 Regulation 6(1)(a) 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.

1.5.2 The AGS has been compiled using a governance framework produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE). CIPFA originally published the framework 'Delivering Good Governance in Local Government' in association with SOLACE in 2007. CIPFA and SOLACE subsequently reviewed the framework to ensure that it remains fit for purpose and a revised edition was published in spring 2016. The framework builds on the existing one and details the principles that should underpin the governance of a local authority. The framework is based on seven core principles that feed into the AGS – a summary of these are shown in Section 3 of the AGS together with examples of the evidence supporting the principals in practice within the Authority. The AGS is attached as Appendix A.

1.5.3 The Chief Executive, Director of Public Health and each of the Heads of Service have been involved in populating the AGS with the evidence supporting how the principals are met within the Authority. The key documents/functions that have been reviewed as part of the compilation of the AGS together with an overview of the process are outlined in Appendix B. Section 5 of the AGS (Appendix A) outlines the outcome of the review of the effectiveness of internal control and identifies areas that have been highlighted as requiring continuous monitoring to ensure that they do not become significant governance issues in the future.

1.5.4 The risk management update, included in the agenda for this meeting, sets out the current corporate risks being managed and monitored, and for the purpose of completeness should be considered alongside this report. This process evidences an important part of the Authority's governance framework.

1.5.5 The AGS is a draft based on the information and evidence available as at the date of this meeting. To date, no issues have been raised by the external auditor during the audit of the 2019/2020 financial statements. Due to the timing of the approval of the financial statements, if there are any matters which arise between the publication of this report and the date of the Audit Committee on 18 November 2020, then a further update will be provided to the Audit Committee for its consideration.

1.5.6 Impact of Covid-19 on Governance

The global pandemic has changed how every organisation works over the last few months – North Tyneside Council has been no different. The Annual Governance Statement has given consideration to the impact of those changes. Two things have been very different in governance terms and were examined during the review of the effectiveness of governance arrangements.

The first was the suspension of face to face meetings for Elected Members and then, as a consequence of national legislation, the power given to Councils to defer their Annual Meetings. Throughout the pandemic, however, the Senior Leadership Team has worked closely with the Mayor and Cabinet and tried to ensure all Members were briefed on progress and decision taking. Care was taken to ensure Council Governance activities were in line with national guidance and legislation. Part of the planned recovery work was a specific focus on political and democratic recovery working to ensure Committees were able to work virtually as quickly as possible; no decisions proper to Council, Cabinet or Committees have been missed.

The second was the move of over 1,000 of the Officer team to work from home. While this posed a major technological challenge, appropriate IT security arrangements were in place aligned to the roll-out of Office 365. In addition, the Scheme of Delegations, Contract Standing Orders and all other usual decision taking arrangements remained in place with oversight consistent to business as usual. Where certain arrangements were made to continue to pay contracts during the lockdown period, national procurement guidance on supplier relief was applied and all appropriate decisions recorded as would be normal via the Waiver and BMS systems.

1.6 Decision options:

The options available are:

(a) To accept the recommendations made in section 1.2.1; or
(b) To reject the recommendations made within this report.

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 – Annual Governance Statement 2019/2020
Appendix B – Annual Governance Statement Framework

1.9 Contact officers:

Janice Gillespie – Head of Resources – Tel: 0191 643 5701
David Dunford – Senior Business Partner – Tel: 0191 643 7027
Iain Henderson – Principal Accountant (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 2019/20
(b) ‘Delivering Good Governance in Local Government’ 2016 Edition (CIPFA)
(c) ‘Delivering Good Governance in Local Government: Guidance Notes’ 2016 Edition (CIPFA)
(d) ‘The Role of the Chief Finance Officer’ 2016 Edition (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

The Chief Executive, Director of Public Health and all Heads of Service have been consulted. All Members were provided the opportunity to attend a briefing during the summer on the draft Financial Statements. The draft financial statements were published on the Authority's website and were available for public inspection between 3 August 2020 and 14 September 2020 to provide residents with the opportunity to scrutinise and raise any questions. No questions were received during this period.

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 system 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.

North Tyneside Council

Annual Governance Statement

2019/20

18 November 2020

Contents

Section

Appendix A

2019/20 Annual Governance Statement

1.0 Scope of Responsibility

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

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

North Tyneside Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE framework "Delivering Good Governance in Local Government". A copy of the Code can be found on our website or can be obtained from Legal Services. This Statement explains how North Tyneside Council has complied with the code and also meets the requirements of regulation 6(1)(a) of the Accounts and Audit Regulations 2015 in relation to the publication the Annual Governance Statement (AGS).

2.0 The purpose of the governance framework

The governance framework comprises the systems, processes, culture and values by which the Authority is directed and controlled. It sets out the activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

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

An Annual Report is produced by the Chief Internal Auditor, part of which provides an opinion from Internal Audit on the overall adequacy and effectiveness of the Authority's control environment. This Statement includes any control issues that the Chief Internal Auditor has deemed significant and should be included within the AGS. These are identified where appropriate, and referenced to the Annual Audit Report.

The governance framework has been in place at North Tyneside Council for the year ended 31 March 2020 and up to the date of approval of the Annual Financial Report.

3.0 The governance framework

The governance framework is based on the core principles of corporate governance included in the CIPFA/SOLACE Framework. These principles are underpinned by key features that need to be in place to allow an authority to demonstrate that they comply with these principles. The diagram below sets out the seven fundamental principles:

Appendix A

The key features that underpin each of the core principles, together with examples of how the Authority achieves them are outlined in the following diagrams.

1. CORE PRINCIPLE
Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

SUPPORTING PRINCIPLE

Behaving with integrity

EXAMPLES OF HOW THIS IS ACHIEVED

Code of Conduct for Members & employees

Member Development Programme

Leadership Forum

Individual Performance Reviews

Declarations of interests made at meetings

Standards Committee

Register of interests (Members & staff)

SUPPORTING PRINCIPLE

Demonstrating strong commitment to ethical values

EXAMPLES OF HOW THIS IS ACHIEVED

Organisation value statement is in place

Appraisal processes takes account of values & ethical behaviour

Procurement policy

Protocols for partnership working

Regular monitoring of Health & Safety, Equality & Diversity

SUPPORTING PRINCIPLE

Respecting the rule of law

EXAMPLES OF HOW THIS IS ACHIEVED

The Constitution

Governance arrangements & Scheme of Delegations in place across the Authority

Job descriptions

Committee support

Compliance with CIPFA's Statement on the Role of the Chief Financial Officer in Local Government

Statutory provisions

Monitoring Officer provisions

2. CORE PRINCIPLE

Ensuring openness and comprehensive stakeholder engagement

SUPPORTING PRINCIPLE

Openness

EXAMPLES OF HOW THIS IS ACHIEVED

Annual Financial Report

Freedom of Information Act publication scheme

Online Council Tax information

Authority website

Compliance with Transparency Code

Record of decision making and supporting materials

Report pro-formas

Record of professional advice in reaching decisions

Mayor's Listening Events

SUPPORTING PRINCIPLE

Engaging comprehensively with institutional stakeholders

EXAMPLES OF HOW THIS IS ACHIEVED

Engagement Strategy

Partnership framework

Partnership protocols

Record of public consultations

SUPPORTING PRINCIPLE

Engaging with individual citizens and service users effectively

EXAMPLES OF HOW THIS IS ACHIEVED

Community Conversations hosted by local Councillors

Wide programme of engagement on full range of services regularly reported to SLT and Cabinet Members

Mayor's Listening Events

Tenant & Leaseholder Involvement Strategy

Authority's website & use of social media

Joint Strategic Needs Assessment

3. CORE PRINCIPLE
Defining outcomes in terms of sustainable economic, social, and environmental benefit

SUPPORTING PRINCIPLE

Defining outcomes

EXAMPLES OF HOW THIS IS ACHIEVED

Our North Tyneside Plan 2020 - 2024

Efficiency Programme

Joint Strategic Needs Assessment

Health & Wellbeing Strategy

North Tyneside Strategic Partnership

Service Plans

Performance Management Framework

Community engagement and involvement

SUPPORTING PRINCIPLE

Sustainable economic, social and environmental benefits

EXAMPLES OF HOW THIS IS ACHIEVED

The Investment Plan

Capital Investment Strategy

Strategic Property Group & Investment Programme Board

Corporate Performance Management

External Audit review

Regular budget monitoring

Record of decision making and supporting materials

4. CORE PRINCIPLE
Determining the interventions necessary to optimise the achievement of the intended outcomes

SUPPORTING PRINCIPLE Determining interventions	**SUPPORTING PRINCIPLE** Planning interventions	**SUPPORTING PRINCIPLE** Optimising achievement of intended outcomes
EXAMPLES OF HOW THIS IS ACHIEVED	**EXAMPLES OF HOW THIS IS ACHIEVED**	**EXAMPLES OF HOW THIS IS ACHIEVED**
Budget monitoring to Cabinet & Finance Sub-Committee	All Council and Committee reports include a risk management section	Feedback surveys
Regular meetings between Cabinet Members and Senior Officers	Risks jointly owned by Senior Leadership Team and Cabinet. Progress on risk management is reported to Cabinet on a regular basis	Budgeting guidance and protocols
Service & Corporate Performance Reports	Partnership framework	Financial strategy
Officer attendance, support and advice for the various Committees and Sub-Committees of the Authority	Communication strategy	Service plans
Evidence based policy making	Budget guidance and protocols	Corporate plans
	Corporate plans	

5. CORE PRINCIPLE
Developing the entity's capacity, including the capability of its leadership and the individuals within it

SUPPORTING PRINCIPLE

Developing the entity's capacity

EXAMPLES OF HOW THIS IS ACHIEVED

Council Plan

Service Plans

Workforce plan

Organisational development plan

Member Development Programme

Shared Services Management Board

Protocols on Member/Officer Relations

SUPPORTING PRINCIPLE

Developing the capability of the entity's leadership and other individuals

EXAMPLES OF HOW THIS IS ACHIEVED

Learning & Development Framework

Member Development Programme

Leaders for the 21st Century Programme

Managers Development Programme

Releasing the Potential of the Workforce Programme

Leadership Forum

Appropriate training

Working with Members training

6. CORE PRINCIPLE
Managing risks and performance through robust internal control and strong public financial management

SUPPORTING PRINCIPLE

Managing risk

SUPPORTING PRINCIPLE

Managing performance

SUPPORTING PRINCIPLE

Robust internal control

EXAMPLES OF HOW THIS IS ACHIEVED

Risk management procedures and protocol in place

Risk management is undertaken at strategic, corporate and operational level

Risks jointly owned by Senior Leadership Team and Cabinet. Progress on risk management is reported to Cabinet on a regular basis

Corporate whistle blowing policy in place

All Council and Committee reports include a risk management section

EXAMPLES OF HOW THIS IS ACHIEVED

Rigorous clearance process for Cabinet and Council reports

Calendar of dates for submitting, publishing and distributing timely reports

Publication of agendas and minutes of meetings

Agreement on the information that will be needed and timescales

Financial standards, guidance

Financial regulations and standing orders

EXAMPLES OF HOW THIS IS ACHIEVED

Risk management strategy

Audit plan

Audit reports

Risk management strategy and policy in place

Annual Governance Statement

Audit Committee in place

Scheme of delegation is in place

6. CORE PRINCIPLE (continued)
Managing risks and performance through robust internal control and strong public financial management

SUPPORTING PRINCIPLE

Managing data

EXAMPLES OF HOW THIS IS ACHIEVED

Data management framework and procedures

Designated data protection officer

Data protection policies and procedures

Data quality procedures and reports

Data validation procedures

E-learning in place

Strategic Information Management Forum

Information Management Strategy

SUPPORTING PRINCIPLE

Strong public financial management

EXAMPLES OF HOW THIS IS ACHIEVED

Budget monitoring reports

Internal Audits

External Audits

Annual financial report

7. CORE PRINCIPLE
Implementing good practice in transparency, reporting, and audit to deliver effective accountability

SUPPORTING PRINCIPLE

Implementing good practice in transparency

EXAMPLES OF HOW THIS IS ACHIEVED

Consultation during budget process

Website

Annual report

Compliance with Transparency Code

SUPPORTING PRINCIPLE

Implementing good practices in reporting

EXAMPLES OF HOW THIS IS ACHIEVED

Annual financial statements which include key points raised by external scrutineers

Annual Governance Statement

Format follows best practice

SUPPORTING PRINCIPLE

Assurance and effective accountability

EXAMPLES OF HOW THIS IS ACHIEVED

Recommendations have informed positive improvement

Annual Governance Statement

Standards Committee

External Audit completion reports

Compliance with CIPFA's Statement on the Role of the Head of Internal Audit

4.0 Review of effectiveness

North Tyneside Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Chief Executive, Director of Public Health and Heads of Service within the Authority who have responsibility for the development and maintenance of the governance environment.

Listed below are the processes that are applied in maintaining and reviewing the effectiveness of the governance framework on a continuing basis:

- **The Full Council** – The Full Council is responsible, within the scope of its responsibilities under law, for ensuring that the Authority's business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, effectively and efficiently. All reports to Full Council document the financial, legal and operational implications of the decisions to be made. Reports are reviewed to ensure there are no governance issues identified or, where such an issue is identified, to ensure that it is appropriately addressed. The Elected Mayor, the Chief Executive and Chair of Council have signed this document;

- **The Council's Executive** – The Council's Executive comprising the Elected Mayor and Cabinet is responsible, within the scope of its responsibilities under the law, for ensuring that the Authority's business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, effectively and efficiently. All reports to Cabinet document the financial, legal and operational implications of the decisions to be made. Reports are reviewed to ensure there are no governance issues identified or, where such an issue is identified, to ensure that it is appropriately addressed. The findings of the AGS are reported to, and discussed with, the Elected Mayor;

- **Head of Paid Service** – The Head of Paid Service is responsible for the corporate and overall strategic management of the Authority's staff in accordance with Section 4 of the Local Government and Housing Act 1989;

- **Chief Finance Officer** – The Chief Finance Officer (CFO) has statutory duties in relation to the financial administration and stewardship of the Authority arising from Section 151 of the Local Government Act 1972. The CFO has completed a governance statement which outlines the arrangements that are required to ensure that the CFO duties can be carried out effectively. The statement is based on "The Role of the Chief Finance Officer" published by CIPFA;

- **Monitoring Officer** – The Monitoring Officer has responsibility for promoting and maintaining high standards of conduct and reporting any actual or potential breaches of the law or maladministration to the Full Council and/or to the Cabinet as set out in Section 5(2) of the Local Government and Housing Act 1989;

- **The Senior Leadership Team** - The Senior Leadership Team acts as the organisation's overall 'management board', providing strategic direction to enable the business of the Authority to be undertaken. The Team provides ultimate assurance to the Cabinet and non-executive Members in relation to the governance arrangements in place. The AGS is reviewed by the Senior Leadership Team as part of the production of the Statement;

- **The Audit Committee** - The Audit Committee improves corporate governance by reviewing the stewardship of the Authority's resources. The Audit Committee enhances the profile of audit throughout the Authority and enables it to be strong and effective. The findings of the annual governance review are reported to the Audit Committee. The terms of reference of the Audit Committee state that they receive the information necessary to undertake an annual review of the effectiveness of the Authority's system of internal control, will agree the methodology for the preparation of the AGS and will monitor the action plan prepared to address the issues identified in the AGS;

- **Overview, Scrutiny & Policy Development** - The Overview, Scrutiny & Policy Development Committee is about improving services for the people of North Tyneside by influencing decision makers. This is achieved by: acting as a critical friend to the Elected Mayor and Cabinet, investigating issues of interest and concern to communities within North Tyneside, involving communities in its work and making recommendations to decision makers on how services can be improved. There are currently seven Overview, Scrutiny & Policy Development sub-committees which cover all Authority services:

    - Finance;
    - Adult Social Care, Health and Well Being;
    - Children, Education, and Skills;
    - Environment;
    - Economic Prosperity;
    - Housing; and
    - Culture & Leisure

- **Standards Committee** - The Standards Committee is responsible for the promotion and maintenance of high ethical standards within the Authority, helping to secure adherence to the Members' Code of Conduct, monitoring the operation of the Code within North Tyneside, the provision of training to members in relation to the Code and to requirements for disclosure of interests. The Committee also promotes and reviews the Whistleblowing Policy for Members and conducts hearings following investigation and determines complaints made against Councillors in respect of alleged breaches of the Code of Conduct (including following requests for review);

- **Health & Wellbeing Board** – The Health & Wellbeing Board is in place to ensure that there is an integrated approach to the provision of health and social care services in the area. The Board is responsible for: encouraging the commissioners of health and social care services to work in an integrated manner to improve the health and wellbeing of people in the area, including the making of joint arrangements; preparing a Joint Strategic Needs Assessment, Joint Health and Wellbeing Strategy and Pharmaceutical Needs Assessment; and encouraging the commissioners of health-related services, such as housing, to work closely with the Board and the commissioners of health and social care services. The Authority's Director of Public Health and statutory Director of Adult Social Services and Children's Services form part of the Adult Social Care, Health & Wellbeing Board;

- **Corporate Assurance Group** – The Corporate Assurance Group consists of the Chief Executive, statutory Director of Adult Social Services and Children's Services and other senior officers involved in Safeguarding. The Group not only provides adequate and regular assurance for the statutory functions for Adult and Children's Services, but enables a strategic discussion of trends, pressures, special measures for specific establishments/service areas or client groups. It also enables the performance, engagement and resource commitment of partners to be kept under review, as well as providing a regular link with the Safeguarding Board Chairs. A primary function of the Group is to provide the evidence by which the Chief Executive, Elected Mayor and Cabinet Members fulfil their statutory responsibilities to adults and children within the borough – in both a retrospective scrutiny of performance and a forward view of pressures and challenges facing the services – which will inform corporate decisions on resources and capacity;

- **Internal Audit** – Internal Audit plays a key role in the assessment of the control environment. Although part of the Authority's overall control framework, Internal Audit is not a substitute for effective internal control. The Chief Internal Auditor provides an annual summary of the results and conclusions of the year's work, this report includes an opinion on areas included within the AGS;

- **Risk Management Groups** – Risk Management is undertaken at operational, strategic and corporate level and is also a main element of managing our key projects and partnerships. The Authority's Senior Leadership Team takes an active part in ensuring that strategic risks are identified and managed taking into consideration the Authority's priorities. Those strategic risks that are exceptional in nature are managed at corporate level and are jointly owned by the relevant member of the Senior Leadership Team and Cabinet Member. All risks are reviewed on a regular basis by the relevant risk management group and governing body to ensure that they are being managed effectively, with progress reported to Senior Management, relevant Board, Senior Leadership Team, Cabinet, and the Audit Committee;

- **External Audit** - Officers meet regularly with the External Audit team, who also attend key Council meetings. Action plans are formulated to address any formal recommendations raised by external inspectors. The views of our external auditors are expressed through the Annual Audit Letter and the Audit Completion Report; and

- **Partnerships** - a monthly Operational Partnership Board (OPB) is attended by key officers within the Council and the Partner. The Cabinet Member for Finance and Resources (for ENGIE) and the Cabinet Members for Housing, Environment & Transport and Community Safety & Engagement (for Capita) also attend the relevant meeting. The OPB is the main interface between North Tyneside Council and ENGIE/Capita. It provides a forum for the day-to-day management of the Partnership and is responsible for ensuring that performance targets are met, that the payment and performance mechanism operates correctly, that a high-performance relationship and culture is developed and that problems or issues and contract variations are resolved. The OPB reviews performance and budget reports from the relevant Partner and any risks or issues escalated to it by ENGIE/Capita or the Commercial Services Team. The OPB escalates risks and issues to the Strategic

Partnership Board, which in turn escalates risks and issues to Cabinet as appropriate.

All of the above work has been used in compiling this Statement and arriving at an assessment of the internal control arrangements in place within the Authority.

Impact of Covid-19 on Governance

The global pandemic has changed how every organisation works over the last few months – North Tyneside Council has been no different. The Annual Governance Statement has given consideration to the impact of those changes. Two things have been very different in governance terms and were examined during the review of the effectiveness of governance arrangements.

The first was the suspension of face to face meetings for Elected Members and then, as a consequence of national legislation, the power given to Councils to defer their Annual Meetings. Throughout the pandemic, however, the Senior Leadership Team has worked closely with the Mayor and Cabinet and tried to ensure all Members were briefed on progress and decision taking. Care was taken to ensure Council Governance activities were in line with national guidance and legislation. Part of the planned recovery work was a specific focus on political and democratic recovery working to ensure Committees were able to work virtually as quickly as possible; no decisions proper to Council, Cabinet or Committees have been missed.

The second was the move of over 1,000 of the Officer team to work from home. While this posed a major technological challenge, appropriate IT security arrangements were in place aligned to the roll-out of Office 365. In addition, the Scheme of Delegations, Contract Standing Orders and all other usual decision taking arrangements remained in place with oversight consistent to business as usual. Where certain arrangements were made to continue to pay contracts during the lockdown period, national procurement guidance on supplier relief was applied and all appropriate decisions recorded as would be normal via the Waiver and BMS systems.

5.0 Overall assessment of Governance Arrangements in place

Any system of internal control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, that material errors or irregularities are either prevented or would be detected within a timely period and that significant risks impacting on the achievement of the Authority's objectives have been mitigated.

The annual report produced by the Chief Internal Auditor has been reviewed and there are no significant governance issues that were identified. See "Annual Governance Statement 2019/20" section of the Internal Audit Service report "2019/20 Opinion on the Framework of Governance, Risk Management and Control".

As a result of reviewing the evidence outlined, the Senior Leadership Team has taken the view that as a whole, the governance arrangements in operation during 2019/20 within the Authority were adequate.

5.1 Outlook

As a result of reviewing the evidence outlined in sections 3 and 4, together with the Authority's assurance statement, some issues were identified that will need to be monitored during 2020/21. These issues relate to the changing nature of the Authority and local government as a whole. If the Authority failed to address these challenges properly it may result in future governance issues. Outlined below is a summary of these key challenges:

Appendix A

Review of 2019/20 AGS Action Plan – November 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. The rent increase is likely to be affected due inflation rates currently being so low. This will impact on to the government formula of CPI + 1% calculation resulting in reduced resources within the HRA Business Plan Restructure of the Neighbourhood service has taken place, bringing in more resource to mitigate the impact of Welfare Reform and full UC role out.	• 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 direct delivery of the repairs, maintenance and 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. • The HRA Business Plan will be adapted as a result of low inflation rates that will impact on the rent increase resulting in lower level of income to support the original plan.

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. • There has been an increase in UC claim numbers throughout Covid-19 but well-established support arrangements are in place to offer support to new claimants.
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 resources.	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 residents expect.	• 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 enabling the Authority to deliver Our North Tyneside Plan priorities. A number of business cases have been

Potential Governance Issue	Factors Driving the Governance Issue	Update to Controls Identified in May 2019 Audit Committee Report
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.	put in place to support the delivery of the Efficiency Statement and associated reduction of costs. • 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 a true partner in its development. The concern centres on engagement and involvement of local authorities	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. The ICS has identified a number of priority areas of work including prevention, optimising health services, digital transformation, workforce transformation and mental health.	• 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. • 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.

Potential Governance Issue	**Factors Driving the Governance Issue**	**Update to Controls Identified in May 2019 Audit Committee Report**
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.		• 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 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	• 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 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

Potential Governance Issue	**Factors Driving the Governance Issue**	**Update to Controls Identified in May 2019 Audit Committee Report**
	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 homeworking. There is a risk that demand for office space reduces. Both factors present a significant risk to the resources available to the Authority.	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 delayed until April 2023, the Government's fundamental review of the whole of the Business Rates system is currently ongoing. 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 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	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 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	• 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 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.

Potential Governance Issue	Factors Driving the Governance Issue	Update to Controls Identified in May 2019 Audit Committee Report
and compensation claims.	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).	• 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 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

Potential Governance Issue	Factors Driving the Governance Issue	Update to Controls Identified in May 2019 Audit Committee Report
		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 annual service plans. • Development and monitoring of the Annual Service Plan for both partnerships continues and performance against these plans are reported through OPB and SPB. • A Schedule 9 Benchmarking Value for Money review is scheduled for year 8 of both the Capita and Engie contracts (2020) and work is underway for these reviews. A review of "Good Value" will demonstrate a contributing to and informing of the Authority's Best Value performance plan and support the Authority in satisfying its duty of Best Value. • 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.

Potential Governance Issue	**Factors Driving the Governance Issue**	**Update to Controls Identified in May 2019 Audit Committee Report**
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 Combined Authority within the region to exploit new areas of growth and financial streams.	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 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).	• 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 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.

Potential Governance Issue	**Factors Driving the Governance Issue**	**Update to Controls Identified in May 2019 Audit Committee Report**
		• 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 Authority may not be able to maximise the opportunities presented by securing a devolution deal for North of the Tyne (NOT).	The North of Tyne authorities have established a North of Tyne 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.	• The North of Tyne Combined Authority is now in existence, with its first elected Mayor in office. • The Elected Mayor and Deputy Mayor are members of the North of Tyne Cabinet. • The North Tyneside Officer Working Group 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 2018/19 Annual Governance Statement		
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	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

Potential Governance Issue	**Factors Driving the Governance Issue**	**Update to Controls Identified in May 2019 Audit Committee Report**
some of our services especially Social Care and Public Health, and succession planning more generally across all areas.		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 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;	• 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

Potential Governance Issue	Factors Driving the Governance Issue	Update to Controls Identified in May 2019 Audit Committee Report
	• 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; • 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.	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 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. • Recovery activity is 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 and 6 enabling workstreams were established as part of phase 1 of the council's recovery programme (June – 30 September 2020). These workstreams deliver against each of the 4 strategic themes 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. Following the end of phase 1 review in September 2020, all 6 enabling workstreams and 8 theme based workstreams have been successfully closed, completing all of the objectives set for them. The 17 remaining workstreams are monitored through RCG. The remaining workstreams continue to link with the work programmes in the Government Recovery Strategy, local

Potential Governance Issue	Factors Driving the Governance Issue	Update to Controls Identified in May 2019 Audit Committee Report
		outbreak control systems, national decisions, the Alert Level nationally and locally and NHS winter planning. Each workstream has 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 recovery workstreams who, where relevant, undertake risk assessments and develop plans to ensure necessary actions are identified and progressed. • Managing business support activities 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 (“MTFP”) and the

Potential Governance Issue	**Factors Driving the Governance Issue**	**Update to Controls Identified in May 2019 Audit Committee Report**
		estimated financial impact from COVID-19 is in progress. This has identified financial risks across the General Fund, Dedicated Schools Grant, Housing Revenue Account and Investment Plan. This has enabled a scenario planning exercise to be completed on potential impact of Council Tax and Business Rate against our agreed planning assumptions. The outcome of this exercise will directly impact the 2021 - 2025 MTFP and budget setting for 2021/22.
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	• 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

Potential Governance Issue	**Factors Driving the Governance Issue**	**Update to Controls Identified in May 2019 Audit Committee Report**
	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 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.	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 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. • Analysis of the Budget presented by the Chancellor on 11 March 2020 for the potential impact on the Authority. Further to this Budget, it has been announced that, due to priority been given to the response to Covid-19, the Chancellor and Prime Minister will conduct a one-year Spending Review, setting department's resources and capital budgets for 2021-22. The Spending Review is expected to conclude in late November and officers will need to consider the outcome of the review with regards to its impact on key assumptions that will be included in the MTFP. • Weekly Covid-19 update with Finance Officers to ascertain the current financial pressures to understand the scale of impact and consider potential solutions.

6.0 Signatures

We, the undersigned, propose to ensure the areas identified above are monitored during the coming year in order that the governance arrangements within the Authority remain effective. These will be reviewed throughout the year.

Signed:

………………………………………………… ……………………………………………

Elected Mayor **Chief Executive**

Date: ………………………………………… **Date:** ……………………………………..

………………………………………………..

Chair of Council

Date: …………………………………………

I confirm that the Audit Committee (at its meeting 18 November 2020) was satisfied on the basis of the information available to it, that the Annual Governance Statement 2019/20, which is required, under the Regulations governing the audit of local government accounts, has been prepared and approved after due and careful enquiry.

…………………………………………

Chair of the Audit Committee

Date:…………………………………………

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

↓

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 7

Title: Key Outcomes from Internal Audit reports Issued between 2 July 2020 and 2 November 2020

North Tyneside Council
Report to Audit Committee
Date: 18 November 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 2 July 2020 and 2 November 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 2 July 2020 and 2 November 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 summary of key outcomes from planned Internal Audit reports issued between 2 July 2020 and 2 November 2020, including findings, areas of good practice identified, and action taken to date by management in response to each audit, along with details of other substantive work undertaken including providing programme assurance and grant certifications, 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.

1.5 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 2 July 2020 and 2 November 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.
(e) Strategic Audit Plan 2020/21 July 2020.
(f) Internal Audit Reports & Briefing Notes prepared during 2 July 2020 and 2 November 2020.
(g) Corporate Strategic, Service Strategic and Operational Risk Registers (C)
(h) 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 2 July 2020 and 2 November 2020

November 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.

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 2 July 2020 – 2 November 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 framework of governance, risk management and control, in addition to receiving the Chief Internal Auditor's annual opinion on this matter each May.

2.3 In this report, details of four audit assignments are presented. Of the four assignments, one received a 'full assurance' opinion and three received a 'significant assurance' opinion. No 'critical' or 'high' priority recommendations were made. These reports are detailed in **Section 4** below. Due to the Coronavirus pandemic and the reprioritising of Internal Audit resources a number of additional audit reports are still at draft stage and will be presented in the next Key Outcomes Report.

2.4 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. Whilst the time spent on such assurance work reduces the number of available audit days, 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.

2.5 Between March and October 2020 Internal Audit has been heavily deployed in assurance work necessitated by the Coronavirus pandemic. This has involved project assurance and development of systems related to a number of business grant funding streams, and advising teams involved in work brought about by the pandemic on suitable controls in a rapidly changing environment. Internal Audit has also led on the post payment assurance and counter fraud elements of the pandemic response as well as having completed the certification of a number of central government grant returns.

2.6 A summary of the programme assurance and grant certification work undertaken by Internal Audit in the period is included at **Section 6** of this report.

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 4**.

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.

IA/KM/CH
November 2020

4 Main Outcomes – Audit Reports Issued During the Period 2 July 2020 to 2 November 2020

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
1	Housing Benefit and Council Tax Support	To provide assurance to the Authority on the following key areas: • System Parameters – procedures are in place to ensure that the system is adequately updated with all relevant changes and the standard verification approach, which replaced the risk-based verification in September 2019. • Quality Assurance – procedures are in place to ensure that claims are processed accurately and promptly. • Key Performance Indicator (KPIs) - procedures are in place, to ensure KPIs are monitored and assessed for effectiveness.	**Full**	0	0	0	0

Good Practice Highlighted	Main Issues Identified and Priority of Recommendations	Progress Made / Action Taken
There are strong quality assurance (QA) arrangements for checking the accuracy of claims processed, and where trends or patterns of errors were identified, appropriate training was carried out.	No issues were identified during the review.	Not applicable – no recommendations were made. The Final Report was issued in September 2020.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
2	Risk Management	To review and appraise the adequacy and effectiveness of controls in relation to Risk Management arrangements, including an assessment against the requirements of the Risk Management Standard (BS ISO 31000:2018) and BS 31100:2011 Risk Management – Code of Practice and Guidance for the Implementation of BS ISO 31000.	**Significant**	0	0	2	4

Good Practice Highlighted	Main Issues Identified and Priority of Recommendations	Progress Made / Action Taken
The risk management process is established and embedded. Risk assessments are recorded and regularly updated with risk owners, using defined categories to evaluate risk including a target risk score for each risk. Risk owners are identified for each risk. Templates and guidance documentation are available.	The main issues were: • A Risk Management Policy and Framework document has not been created and approved by members **(medium).** • In the sample of risk assessments examined it was noted that several risks, in all levels of risk assessments, had a current risk score that was higher than the target score, but new controls were not identified **(medium).**	The Final Report was issued in November 2020. The target dates for implementation of the recommendations have not yet been reached and it is therefore too early to report on action taken. The recommendations will be followed up in accordance with Internal Audit's agreed processes.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
3	Payment Card Industry Data Security Standard (PCI DSS)	To determine whether systems and procedures in operation for obtaining, recording, transmitting and retaining cardholder data are functioning satisfactorily and are in accordance with legislation and Council policy and comply with the PCI DSS.	**Significant**	0	0	3	4

Good Practice Highlighted	Main Issues Identified and Priority of Recommendations	Progress Made / Action Taken
• The Authority has now designated a post as responsible for PCI compliance. • The ICT Security Team have created a spreadsheet which details information on all the firewalls and information on the rules. • ICT retained their ISO27001 accreditation in January 2020. • Every six months a full penetration test of the network is carried out. In addition, quarterly scans are performed. • ICT have just rolled out a new Security Incident Event Management (SIEM) system (Logpoint), which has an enterprise license and therefore can be configured to monitor all of its systems.	The main issues were: • The NESSUS Vulnerability Scanner identified that there were several critical and high vulnerabilities outstanding relating to both desk top devices and servers **(medium).** • Several file shares relating to a specific system were identified which did not have the necessary access restricted to system administrators. **(medium)**. • The security controls applied to desktop and laptop devices require strengthening in relation to device lockout time (the period of inactive time taken for the device to lock itself) (**medium).**	The Final Report was issued in October 2020. One medium recommendation was subject to evidence checking and it can be confirmed that any identified vulnerabilities are now passed to the appropriate team. ICT management review these for resolution or mitigation. The target dates for implementation of the remaining recommendations have not yet been reached and it is therefore too early to report on action taken. The recommendations will be followed up in accordance with Internal Audit's agreed processes.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
4	Accuserv System Review	To determine whether the systems and procedures in operation for the Accuserv system were functioning satisfactorily and are in accordance with legislation and Council policy. The Accuserv system is a new system implemented as part of the project to return Housing, Property and Construction (HPC) to the Council.	**Significant**	0	0	4	10

Good Practice Highlighted	Main Issues Identified and Priority of Recommendations	Progress Made / Action Taken
• There are clear requests for change processed for every change made to the interfaces. • HPC teams undertake in-depth testing of all new functionality in the test system before accepting and proceeding to the live upgrade. • Accuserv can only be accessed from within the Internal NTC network, this provides an added layer of authentication. • All administrator accounts can be attributed to the user.	The main issues identified related to: • A lack of documentation handed over from the supplier to support system upgrades. This makes it unclear to the HPC team what changes and testing have been completed **(medium).** • A number of users only require access to run reports however these users have some update privileges to the system **(medium).** • User account permissions in the Windows and Web version of the system are not as strong or robust as the HPC team require **(medium).** • Controls require strengthening in relation to system administrators' access to users' passwords **(medium).**	The Final Report was issued in November 2020. The target dates for implementation of the recommendations have not yet been reached and it is therefore too early to report on action taken. The recommendations will be followed up in accordance with Internal Audit's agreed processes.

5 Evidence Checking

5.1 Internal Audit reports issued during the period 2 July 2020 to 2 November 2020 included nine medium priority recommendations. There were no critical or high priority recommendations in the period under review. In respect of these nine, 1 medium priority recommendation, having passed its target date, was evidence checked and can be confirmed as implemented. The remaining eight have not reached their target dates.

5.2 As advised in the Key Outcomes Report presented to the July Audit Committee Internal Audit's usual practice of evidence checking of high and medium priority recommendations which have passed their implementation date, could not be performed due to the pandemic. This exercise has now been completed. There were no critical or high priority recommendations made during the previous period. Of the nine medium recommendations reported, four have passed their target date. All four were confirmed by Internal Audit as implemented. Details are provided in the following table:

Audit	Issue Identified	Details of Evidence Check
Email System Review	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. Killingworth Security have not been provided with a list of authorised ICT employees.	A list of employees with access to the data centre has been given to Killingworth security.
Council Tax	The Financial Services team provides a list of reversed cheques to the Council Tax team on a monthly basis. The Council Tax team had received a number of reversed cheques dating back to October 2018, in one month.	New process agreed between Business Support and Revenue and Benefits to ensure timely exchange of information each month re: out of date cheques.
Cash and Non-credit Income	One establishment visited was not providing customers with receipts and instead was placing these into the bin.	Staff members have been asked to ensure receipts are given to all customers. A notice has been displayed at the establishment asking that customers wait for a receipt for their payment.
	At one school, an issue was identified relating to the correct recording of the transfer of funds to a Security Plus guard.	A reminder has been given to staff on the importance of security to ensure the safety of the building, children, staff and cash.

The remaining five recommendations have not reached their target dates.

5.3 A summary of results from both evidence checking exercises is included within the table below:

Priority	Total Number of Recommendations Evidence Checked	Number confirmed as Implemented		Number Requiring Additional Action (or awaiting evidence)	
		No.	%	No.	%
Critical	Not Applicable	N/A	N/A	N/A	N/A
High	Not Applicable	N/A	N/A	N/A	N/A
Medium	5	5	100%	0	0
Total	5	5	100%	0	0

6 Programme Assurance and Grant Certification Work Undertaken

Area of Work	Summary of Work Undertaken
Covid-19 Business Grants Scheme:	○ Support to Finance colleagues in preparing monthly assurance submissions to Department for Business, Energy & Industrial Strategy in relation to the Small Business Grant Scheme and Retail, Hospitality and Leisure Grant Scheme. Monthly returns continue to be made and the Discretionary Business Grant Scheme will be introduced to the submissions in future months. ○ Continuing to work with Finance colleagues to progress post payment assurance work identified from completion of the Government's mandatory business grant scheme risk registers. ○ Initial discussions with Finance colleagues regarding potential further grants if businesses are forced to close due to Covid-19 restrictions. ○ Assurance provided to approximately £35m of Business Grants paid to around 3000 businesses.
Covid-19 - Public Health Payments to medical practices in lieu of delivering Health Check service	Public Health agreed to pay 50% of the average monthly payment to medical practices in 2019/20, for April 2020 to July 2020. Internal Audit undertook a post-payment assurance review and concluded that the payments, totalling £0.0353m, were calculated correctly and made on a rational basis.
Covid-19 Self-Isolation Payments	Providing advice and guidance to Finance colleagues regarding the development and implementation of new processes and procedures.
Local Transport Plan and other Associated Grants Capital Funding 2019/20 Statement of Grant Usage	Completed and submitted to Department for Transport by deadline of 30 September 2020 – Integrated Transport (Block Funding via NECA) £0.958m, Local Transport Plan (Block Funding) £2.195m and potholes grant funding of £0.143m
Blue Badge Grant Certification	Completed and submitted to Department for Transport by deadline of 28 July 2020.
Troubled Families Grant Certification	Programme of targeted intervention - Government pays local authorities for each family that meet set criteria. September 2020 Claim certification work complete, value £0.0184m.

Participation in the Cabinet Office's National Fraud Initiative	North Tyneside Council participates in the National Fraud Initiative data matching exercise to assist in the prevention and detection of fraud and are required to provide sets of data to the Minister for the Cabinet Office for matching for each exercise. In addition, the Cabinet Office have recently conducted their biennial National Fraud Initiative (NFI) data-matching exercise, Internal Audit liaised with relevant services to ensure the required data sets were extracted, in adherence with NFI data specifications and successfully uploaded all required data to the secure NFI system within the required timescales, results from this exercise will be available in January 2021 for investigation. Internal Audit commenced the annual Council Tax Single Person Discount exercise in October 2020, relevant officers have been contacted and requested to provide the required data sets for upload in December 2020. An additional data set, as part of the counter fraud response to the government Covid-19 relief programme, has been introduced, Internal Audit are currently liaising with the applicable officers regarding extracting data for the required 'Grant Recipients' data, which will be uploaded for data matching in December 2020.
Support to Project Boards / Working Groups	Internal Audit has supported the following project boards / working groups during the period under review in a programme assurance role: • ICT Operations Advisory Board; • Catering New School Meals Payment System; • Social Care Payment System initiatives (Adults' and Children's); and • Office 365 Project Board.