Financial Statements 2019-20

30 November 2020


...an outstanding place to live, invest and bring up families

South Tyneside Council

HELLO TOMORROW
CHANGE IS HAPPENING

Further Information

The Financial Statements are available on the Council's website at:

https://www.southtyneside.gov.uk/article/38543/Financial-Statements

Hard copies (for a charge) can be requested by writing to:

Corporate Director Business and Resources
Town Hall and Civic Offices
Westoe Road
South Shields
NE33 2RL

If you know someone who would like this information in a different format, please contact Members Support on **0191 427 1717**.

We are committed to improving the information that we provide to you and would be grateful for any suggestions or comments you may wish to make about our published Financial Statements. Please let us have your views by contacting us at the above address.

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1. Introduction

These accounts set out the results of the Council's financial activities for the year ended 31st March 2020 and outline our financial position at that date. The narrative statement provides:

- A review of the Council's financial results and financial standing for the year.
- Information about the activities and significant matters that took place during the year that had an impact on Council finances.
- An explanation of the principal financial statements.
- An assessment of the future financial prospects of the Council.

South Tyneside Council seeks to make the best possible use of resources available with regard to economy, efficiency and effectiveness. This is a responsibility shared by Members and officers of the Council with the Council's Chief Financial Officer, the Corporate Director Business and Resources, having a specific role in ensuring the adequacy of resources and proper financial administration. Our Medium Term Financial Plan (MTFP) sets out how we will do this over a future five-year horizon. The Statement of Accounts looks back at our results over the past financial year.

2. Revenue Financial Summary for the Year

Revenue expenditure relates to the day-to-day running costs of providing Council services, including pay costs, property running costs and supplies and services. These costs are largely funded by a combination of grants from central Government and local taxation (council tax and non-domestic rates).

The table on the next page summarises our in-year revenue spending position including schools expenditure. The Council underspent its budget by £0.4m in the year after taking into account transfers to and from earmarked reserves with the financial impact of the Covid-19 pandemic largely falling into the 2020/21 financial year. The overall change in earmarked reserves can be seen in more detail in note 6 to the core Financial Statements.

Section 1 – Narrative Statement by Corporate Director Business and Resources

Revenue financial summary	Original budget £m	Actual outturn £m	Variance from budget £m *Note 1*
Revenue spending			
Children, Adults and Health Group	91.790	98.405	6.615
Business and Resources Group	10.373	2.767	(7.606)
Economic Regeneration Group	22.162	22.767	0.605
Net cost of services and operating expenditure	**124.325**	**123.939**	**(0.386)**
Funding sources			
General government grants	(49.043)	(49.043)	-
Non-domestic rates retained and top up grant	(14.306)	(14.306)	-
Contribution from Collection Fund	(0.455)	(0.455)	-
Council tax payers	(60.521)	(60.521)	-
Total revenue funding	**(124.325)**	**(124.325)**	**-**
Contribution to General Fund balance for the year	**-**	**(0.386)**	**(0.386)**

Note 1 : reported variance from budget is after accounting for any movement in earmarked reserves

The actual outturn position is shown in the Statement of Accounts as the net expenditure chargeable to the General Fund and HRA balances column of the expenditure funding analysis. This column also includes the outturn for the Housing Revenue Account (HRA) the results of which are reported in section 8 of the Narrative Statement.

Children, Adults and Health Group

The major services provided by the Children, Adults and Health Group include public health, social care for elderly and vulnerable adults, protection of children at risk from abuse or neglect, support to children and adults with disabilities, as well as a range of educational and support services for young people from early years through school age to youth provision and further learning.

The revenue spending highlights during the year were as follows:

- The cost of adult social care through commissioned and directly provided care is a cost pressure for the Council, with this service exceeding budget by £1.7m in the year. The Council seeks to manage these demand-led pressures by providing a timely and integrated approach to care and support. Our assessment and targeted investment in supporting the well-being of clients continues to ensure the most appropriate packages of care are provided. The Council continues to work very closely with health partners in delivering integrated preventative services which reduce demand on more costly health and social care interventions as well as promotion of information and advice to expand self-serve and self-care taking account of services and support available in the community.

- The cost of looked after children through foster placements, social work staffing levels and out of borough child placements is a pressure for the Council with this service exceeding budget by £2.0m in the year. The Council continues to manage these demand-led pressures through pro-active intervention to support families, improve professional practice, adopt a multi-agency approach and align expenditure more closely to meet need. This is safely limiting the numbers of looked after children contrary to national trends. The effectiveness of the Council's children's services has been recognised nationally through its status as a Partner in Practice.

- Within the commissioning and quality assurance service there were cost pressures of £1.3m primarily relating to increased demand for home to school transport for young people with special educational needs and disabilities resulting from an increase in the number of required placements in special schools over the past three years. A review of the service was undertaken recently to identify and implement measures to reduce both the need and cost of transport for young people.

- Within public health there were cost pressures of £0.9m primarily as a result of delays in implementing new contracts for services and the cost relating to demand for commissioned contracts exceeding budget. Additional resources have been allocated into this budget in 2020/21 to further match the budget with demand.

Business and Resources Group

The major services provided by the Business and Resources Group include leisure and libraries and a range of support services to ensure the proper functioning of the Council.

The revenue spending highlights during the year were as follows:

- Net additional income of £6.7m received from Government relating to temporary social care funding all of which offset cost pressures within social care identified in Children's Adults and Health Group.

- Net underspend of £1.4m on digital and ICT services due primarily to re-profiling of capital investment.

- There was a cost pressure of £1.0m in relation to capital receipts used to service debt repayments as all planned land sales did not crystallise in year.

- Additional investment income received in year resulted in an £0.5m favourable variance against budgeted income for the year.

- The Council maintained a strong income collection performance. During the year, 95% of council tax income due was collected in year (95% in 2018/19). The majority of the amounts outstanding will also be received after the year-end. The comparative figure for business rates collection was 99% (99% in 2018/19).

Regeneration and Environment Group

The major services provided by the Regeneration and Environment Group include; area management encompassing maintenance of open spaces, street cleaning and waste management; encouraging the creation of new jobs through supporting new and existing business, enhancing the skills of local people and management of the Council's highways infrastructure and other land and buildings.

The revenue spending highlights during the year were as follows:

- £1.1m of additional costs were incurred on waste collection primarily from the need to hire refuse collection vehicles during a period of replacing our outdated existing fleet.

- Within asset management energy consumption across the property portfolio fell in year as a result of energy saving measures implemented in previous years. This produced a saving of £1.0m against budget and will contribute towards our climate change targets of significantly reducing carbon emissions.

3. Capital Investment Financial Summary for the Year

The following table summarises capital investment of £54.4m during the year and the capital funding the Council has used to finance this spending. The original capital budget, agreed as part of the 2019-24 MTFP, has been revised to reflect the full impact of known contractual commitments from the previous year and new funding approvals received in year. £36.3m of funding has been provisionally carried forward to support ongoing schemes in future years. Investment during the year continued the Council's commitment to apply available capital resources in a targeted manner to regenerate and transform the borough.

Capital investment summary	**Revised budget £m**	**Actual outturn £m**	**Carry forward £m**	**Variance from budget £m**
Children, Adults and Health Group	4.033	2.420	1.823	0.210
Business and Resources Group	4.599	2.616	1.133	(0.850)
Economic Regeneration Group	61.639	33.226	29.535	1.122
Public sector housing	19.666	16.116	3.839	0.289
Total capital investment	**89.937**	**54.378**	**36.330**	**0.771**

Capital financing summary	**Actual funding £m**
Unsupported borrowing	(19.449)
Capital receipts	(2.185)
Funding from the General Fund and HRA	(1.709)
Funding from the major repairs reserve	(15.986)
Government grant and other contributions	(15.049)
Total capital funding	**(54.378)**

Section 1 – Narrative Statement by Corporate Director Business and Resources

The capital investment highlights during the year were as follows:

Children, Adults and Health Group

- £1.0m has been invested in adaptations to private dwellings such as walk in showers and stair lifts. This allows people to live independently for longer within their own home rather than requiring residential care.

- £1.2m was spent during the year on school improvements funded from devolved formula and other specific education capital grants.

Business and Resources Group

- £1.9m was invested in technology to ensure our computing and digital facilities continue to be effective and resilient, able to meet the changing expectations of residents on how they receive services and improving the productivity of staff.

- £0.5m was spent on neighbourhood improvements to meet the priorities of local communities.

Economic Regeneration Group

- £7.9m has been invested in a variety of infrastructure schemes ranging from road safety measures, flood prevention measures, resurfacing highways, renewal of footbridges and improved footpaths throughout the borough.

- £7.0m was spent on delivering the new transport interchange facility for South Shields. The interchange opened in August 2019.

- £1.0m was invested into the restoration of North Marine Park, supported by funding from the Heritage Lottery Fund.

- £3.2m was invested into energy efficiency schemes to reduce the Council's carbon footprint and lower energy costs. Schemes included replacing lighting with light emitting diode (LED), the purchase of lower emission fleet vehicles and the development of the Viking Energy Network.

- £3.2m was invested into improvements to the A19 and A194 to reduce congestion and improve traffic flow.

- £1.8m has been spent on measures to remodel the Council's building estate so that it is fit for purpose, allows a reduction in the number of buildings maintained generating savings in running costs, receipts from the sale of any surplus assets as well as promoting flexible working.

- £3.2m has been spent on a programme of works to maintain and enhance the portfolio of front-line service buildings.

- £1.1m has been spent on Temple Park leisure centre to improve the leisure and parking facilities.

- £1.3m was invested in improvements to the borough's waste collection vehicles and waste disposal infrastructure.

- £1.3m has been invested in land at Holborn, South Shields to support regeneration of the riverside.

In addition to the capital investment highlights the Council has also loaned £0.7m to IAMP LLP to assist in the creation of an international advanced manufacturing park (IAMP) on the site north of the Nissan car manufacturing plant. Incorporating a new enterprise zone, the first phase will create more than 5,200 new jobs. The loan is secured on the land purchased and will be repayable once the site has been developed.

Public Sector Housing

- £8.6m has been spent on improving 1,098 homes to the South Tyneside decent homes standard.

- A further £3.1m was spent on dwellings primarily on improving the non-traditional stock and updating fire safety measures within high rise blocks.

- £1.0m was spent on improvements to vacant properties to bring them back into occupation, £0.9m invested in adaptations to properties for tenants with special needs, £1.0m on improvements to infrastructure, £0.5m to support demolitions and area redevelopment schemes and £0.7m on local estate improvements.

4. Significant Matters

Government Funding and Strategic Planning

Grant support from the Government has reduced by 60% in cash terms since 2010. Since that date and including the current year, the Council will have delivered efficiencies of £175m. This has been achieved through a relentless focus upon value for money, delivering services through new and innovative means and prioritising resources to meet the Council's strategic objectives as set out in its plans.

The Government is reviewing the distribution of funding to councils. Funding changes arising from the review were expected to be implemented from 2021/22. However due to the current Covid-19 pandemic the Government has announced that any changes will not be implemented until 2022/23 at the earliest. At the same time, councils will retain a greater proportion of business rates collected (increase from 50% to 75%) rather than repayment to Government. Due to councils retaining more income, Government will reduce funding accordingly. The future of other funding streams such as new homes bonus is also under review. The net financial impact of these changes is at the present time very uncertain, especially given the local, national and global economic uncertainty resulting from the current Brexit transition period and the Covid-19 pandemic, substantially increasing the level of future financial risk faced by councils.

The context for future financial planning is very challenging. The Covid-19 pandemic has impacted significantly upon the delivery of local services. There remains huge uncertainty around the impact of the pandemic on the Government's future spending plans which is closely related to national economic prospects. In the midst of very fluid circumstances, the Council will continue to chart a course on its strategic and financial plans.

The current financial planning programme is split between business areas within the Council and also by a range of cross-cutting themes. This will support closer integration of services within the Council but also with partners and other organisations. It will also strengthen its commissioning approach to ensure that services meet identified need in the most cost effective manner that maximises benefits for residents and the borough and identifies new income streams.

In common with many areas, the Council is facing significant demographic pressures. The number of residents over 85 years old is expected to double in the next twenty years. This places huge pressure upon services such as adult social care especially as Government funding continues to be reduced. The Council recognises that effective demand management of adult social care services is integral to securing financial sustainability and in response is implementing a programme of system change across the whole service. The Government's intentions on the future shape and funding of adult social care services is still awaited.

The Council will target capital investment to support economic regeneration and attract new business and jobs to the area to support its overarching objective of increasing economic prosperity and over time minimising growth in demand upon services that the Council provides. This will continue to be an even greater priority due to the significant economic impacts of the pandemic and will be complemented by investment in skills, transport connectivity and digital infrastructure. The Council remains fully committed to delivering its vision for South Tyneside to be an outstanding place to live, invest and bring up families.

Defined Benefit Obligation

As at year end the Council had a defined benefit obligation to the Tyne and Wear Pension Fund of £373.7m (£364.5m in 2018/19). If the Council ceased operations, this liability would have to be taken over by the successor body or ultimately funded by Central Government.

South Tyneside Housing Ventures Trust Limited (STHVTL)

In 2013/14, the Council supported the formation of an independent not for profit company (STHVTL) to increase the number of affordable homes in the borough. The Council has minority representation on the board of STHVTL. The Council has provided a loan facility of up to £65.0m to STHVTL which is secured on the value of the sites to be developed or assets acquired. £4.9m was loaned or advanced during the year (£4.2m in 2018/19) resulting in £39.5m of the loan facility drawn down at 31st March 2020. The loans allow the company to fund initial build and acquisition costs for dwellings and its cost will be serviced from rental and sales income those assets generate.

5. Material Movements in Assets and Liabilities

The value of Council dwellings have reduced by £8.7m primarily as a result of assets being depreciated with no major movements in asset values recognised in year. The value of other property plant and equipment has also reduced by £11.1m primarily due to the transfer of the South Shields transport interchange to Nexus under a long-term lease arrangement. This was partially offset by additional improvements in road infrastructure, Toner Avenue School and the replacement of outdated waste collection vehicles.

Cash and cash equivalents increased by £37.4m due to additional funding received and decreased costs incurred in the wake of the Covid-19 pandemic as well as planned additional borrowing to take account of preferential rates before Public Works Loan Board (PWLB) interest rates were increased. Due to the uncertainties at 31st March 2020 resources were held in more liquid form to react to additional short-term costs such as the business support schemes announced by the Government in the wake of the pandemic.

Short-term borrowing has increased by £5.2m due to more loans reaching maturity in 2019/20 than in the previous year. Long term borrowing has also increased by £39.1m to take advantage of the lower PWLB rates as well as to fund the ongoing regeneration of our town centres and investment in our highways infrastructure.

The liability relating to the defined benefit obligation has increased by £9.3m or 2.5% compared to the previous year. This is primarily due to recognising net interest chargeable for the year of £8.0m.

6. Reserves and Balances

As at year end the Council held earmarked reserves of £35.7m (£35.2m in 2018/19). School balances have a deficit of £2.2m (surplus of £1.2m in 2018/19). Our strategic reserve is intended to cover emergency or unforeseen events and is maintained at no less than 2% of the net budget as part of a risk-based assessment. As at year end the Council held £3.0m or 2.4% of net budget in this reserve (£3.0m and 2.4% in 2018/19).

Another key reserve that we hold to deal with our specific risks is the future funding reserve. As at year end the Council held £14.2m in this reserve (£16.9m in 2018/19). The end of the financial year coincided with the start of the Coronavirus pandemic and lockdown in the UK. The Council was provided with a grant to assist with the costs of dealing with the pandemic as well as provide grants to support local businesses. We created an emergency reserve from the unspent balances of these grants of £6.0m (nil in 2018/19). As at year end the Council held £1.1m (£1.4m in 2018/19) in capital receipts for the purposes of investing in our assets in future years.

7. Group Results

The Group Accounts fully incorporate the results of South Tyneside Homes Limited (STHL), a subsidiary company of the Council. They also reflect the Council's share as associate of STHVTL and 50% share of IAMP LLP as a joint venture. Further details about these relationships can be found in the Group introduction on page 108 of these accounts. The Group results revealed a deficit for the year of £56.7m (£33.6m in 2018/19) incorporating a net deficit of £4.0m (£6.9m in 2018/19) from STHL. The net assets of the Group stood at £94.6m at year end (£135.4m in 2018/19).

Section 1 – Narrative Statement by Corporate Director Business and Resources

8. Housing Revenue Account (HRA)

The HRA is ring-fenced, relating to the management and maintenance of the Council's housing stock, and all expenditure must be met from rents and other charges. The decrease in year on the HRA balance was £0.1m (£0.9m in 2018/19). Revenue reserves at year end stood at £20.8m (£20.9m in 2018/19) which will be used to support future years' expenditure on housing.

9. Private Finance Initiative (PFI) Expenditure for the Year

Net expenditure on PFI schemes during the year was £22.7m (£22.6m in 2018/19). Revenue contributions provided funding of £11.6m (£11.5m in 2018/19), or 51%, and the remaining £11.1m (£11.1m in 2018/19) was funded using PFI credits from Government.

10. Borrowing Facilities

The Council has established a set of prudential indicators and developed a measurement and reporting process that highlights any breaches of these indicators. There were no breaches during the year. The Council increased its debt having taken out twelve long-term loans totalling £59.0m (£35.0m in 2018/19) from the PWLB and a loan of £0.1m from the private sector (nil in 2018/19). At 31st March 2020 the Council had borrowing repayable in twelve months of £24.6m (£7.1m in 2018/19) from other local authorities, pension funds and the private sector and £23.8m with the PWLB (£36.1m in 2018/19). £30.0m of long term loans were repaid during the year (£15.0m in 2018/19).

11. Hello Tomorrow, Change is Happening

Our vision is for South Tyneside to be **an outstanding place to live, invest and bring up families.** We have ambitious plans to regenerate our towns, homes and communities that will help us to attract investment, create jobs, improve health and support greater opportunity in the borough for years to come. This is being driven through our modernisation programme "Hello Tomorrow, Change is Happening"

To achieve our overall vision, we have agreed **ten strategic outcomes** with partners under the themes 'People' and 'Place'. These are the things we will achieve over the next twenty years:

People

- Better education and skills
- Increasing prosperity
- Protect children and vulnerable adults
- Stable and independent families
- Healthier people

Place

- A regenerated South Tyneside with increased business and jobs
- Better transport
- Better housing and neighbourhoods
- A clean and green environment
- Less crime and safer communities

Section 1 – Narrative Statement by Corporate Director Business and Resources

The South Tyneside Council strategy – 'Shaping our Future' identifies four priorities that will make the biggest difference to our residents and will be our focus over the next five years:

- **Stable and independent families**
- **Healthier people**
- **A regenerated South Tyneside with increased business and jobs**
- **Better housing and neighbourhoods**

These priorities are supported by our Best Start in Life Strategy. Knowing where we are going, being clear about what needs to be done most urgently and taking tough decisions when we have to – this is how we remain focused on our priorities.

We have had to respond very quickly to the impact of the Covid-19 pandemic which developed in the middle of March. This includes the establishment of a support hub to support residents who are shielding to assist in access to essential items such as food and medication and combatting isolation. We have also supported residents facing financial difficulty through our Hardship Fund and distributed over £25m in grants to support businesses as well as working closely with partners in the social care sector to keep clients as safe as possible.

We have continued to strengthen our organisational structure over recent years so that we are shaped to deliver our vision for South Tyneside. We are committed to the delivery of high quality, value for money services but we must do this in a different way, taking a much more integrated and collaborative approach. With real drive and energy we will work more effectively across services and organisational boundaries, ensuring provision is targeted at a local level where it is most needed and remove inefficiencies by reducing overlap and duplication. The changes we have made are now embedded across the organisation and underpin delivery of our priorities.

12. Medium Term Prospects

Our MTFP for 2019 to 2024 was approved by Council and published in March 2019. Our key stakeholders, including our trades union, business sector and voluntary sector partners, members of the public and our own staff helped us to make decisions to ensure that our limited resources are directed to the top priorities for the residents of the borough. Our MTFP identifies what we need to spend to maintain current services, what our priority-led spending plans are and our plans to redirect current spending from lower priority areas. In addition, the plans include our financial strategy on what level of reserves we plan to hold and how these are to be utilised.

Through its corporate planning process, the Council recognised at an early stage that there would be a significant decline in Government funding over the medium term. Consequently, the Council has implemented organisational changes which have involved a sizeable reduction in staff post numbers. These changes have been managed through continual dialogue with staff and trade unions. Due to the Covid-19 pandemic, we are reviewing our future financial forecasts in detail. These planning assumptions will evolve dependent upon recovery from the pandemic and indications of future Government financial support

Our strategic planning is prioritised by a focus on large and high-risk areas of spend, ensuring targeted investment to deal with issues at an early stage to prevent costs escalating into the future. As a result, all significant budgets were reviewed and revised as appropriate. This will ensure that the Council is best placed to manage future pressures and benefit from opportunities through working with a wide range of partners.

13. Changes to the Statement of Accounts

There have been no major presentational changes to the Statement of Accounts.

The major issue throughout the presentation of these accounts relates to the impact that the Covid-19 pandemic has had on the figures. The most notable items are as follows:

- The proposed implementation of IFRS 16 for leases has been postponed for a year by Central Government and will not now come into force until 1st April 2021.

- Certain balances have been impacted as a result of the pandemic. Most notably long term investments and long term debtors have decreased due to the impact on Newcastle Airport from the curtailment of services as a result of the lockdown and subsequent travel restrictions and a new earmarked reserve has been created to capture Government funding provided late in the financial year to deal with the crisis.

- Whilst the valuation method of property, plant and equipment and other long-term assets have remained unchanged the accounts include a 'material valuation uncertainty' as defined by the Royal Institute for Chartered Surveyors. This means that less certainty and a higher degree of caution should be attached to the valuations, and consequently any charges derived from these valuations, than would normally be the case.

14. The Statement of Accounts

The Statement of Accounts are set out on pages 18 to 175. They consist of the following statements that are required to be prepared under the Code of Practice:

- **Statement of Responsibilities for the Accounts** (page 18) that explains both the Council's and the Corporate Director Business and Resources' responsibilities in respect of the Statement of Accounts.

- **Independent Auditors' Report** (page 19) sets out the opinion of our auditors Ernst and Young LLP following their audit of the Statement of Accounts.

Section 1 – Narrative Statement by Corporate Director Business and Resources

The **Core Financial Statements** in Section 4 are:

- **Movement in Reserves Statement** (page 24) reconciles items included in the Comprehensive Income and Expenditure Statement, which by statute are not charged to the council tax payer or housing rent payer.

- **Comprehensive Income and Expenditure Statement** (page 25) reports the income and expenditure relating to all services provided by the Council and how the net costs of these services have been financed from general government grants and income from local taxpayers.

- **Balance Sheet** (page 26) shows what assets the Council owns and its level of indebtedness. This statement also details the level of reserves that the Council can call upon to meet future expenditure.

- **Cash Flow Statement** (page 27) summarising the activities during the year in terms of cash inflows and outflows reconciling to the cash and cash equivalent balances held on the Balance Sheet.

- **Expenditure and Funding Analysis (EFA) and Notes** (pages 28 to 99). The EFA shows how annual expenditure is used and funded from resources available to the Council compared to resources consumed or earned in accordance with generally accepted accounting practices.

The **Supplementary Financial Statements** in Section 5 are:

- **Housing Revenue Account Income and Expenditure Statement and Notes** (pages 100 to 105) dealing with the provision and maintenance of Council housing. There is a statutory requirement to keep this account separately and also consolidate the figures within the Comprehensive Income and Expenditure Statement.

- **Collection Fund Statement and Notes** (pages 106 to 107) showing the income the Council receives from council tax and non-domestic rates and how this income has been distributed to precepting authorities (Police and Crime Commissioner for Northumbria and Tyne and Wear Fire and Rescue Authority).

The **Group Financial Statements and Notes in Section 6** (pages 108 to 123) reports the financial picture of all activities conducted by the Council, including those delivered through partnership and separate undertakings owned by the Council.

The **Tyne and Wear Pension Fund Statements and Notes in Section 7** (pages 124 to 177) record the year's activities in relation to the Pension Fund. The Council is required to publish these statements as administering authority for the Fund.

Section 1 – Narrative Statement by Corporate Director Business and Resources

15. The Annual Governance Statement

To accompany the Statement of Accounts the leadership of the Council prepares an Annual Governance Statement that sets out the principal arrangements that operate to ensure proper governance of the Council's affairs and the stewardship of resources at its disposal. It also outlines the principal arrangements that are in place to ensure that a sound system of internal control is maintained.

Stuart Reid
Corporate Director Business and Resources
26th November 2020

Section 2 – Statement of Responsibilities for the Accounts

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of both its financial affairs and those of the Tyne and Wear Pension Fund and to ensure that one of its officers has the responsibility for the administration of those affairs. For South Tyneside Council and the Tyne and Wear Pension Fund, that officer is the Corporate Director Business and Resources.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Responsibilities of the Corporate Director Business and Resources

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

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Code.

The Corporate Director Business and Resources has also:

- Kept proper accounting records that were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate Director Business and Resources Certificate

I hereby certify that the Statement of Accounts, set out in pages 19 to 177, gives a true and fair view of the financial position of South Tyneside Council and the Tyne and Wear Pension Fund as at the Balance Sheet date, and their income and expenditure for the year ended 31st March 2020.

Signed: Date: 26th November 2020

Stuart Reid, Corporate Director Business and Resources

Vice Chair of General Purposes Committee Certificate

I can confirm that these accounts were approved by the General Purposes Committee at its meeting held on 23rd October 2020.

Signed: Date: 26th November 2020

Councillor Tracey Dixon, Vice Chair of General Purposes Committee

Section 4 – Core Financial Statements

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

Opinion

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

- Authority and Group Movement in Reserves Statement;
- Authority and Group Comprehensive Income and Expenditure Statement;
- Authority and Group Balance Sheet;
- Authority and Group Cash Flow Statement;
- the related notes 1 to 43 to the Authority financial statements and notes 1 to 15 to the Group financial statements;
- Housing Revenue Account Income and Expenditure Statement and the related notes 1 to 9; and
- Collection Fund Statement and the related notes 1 and 2.

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 South 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 group 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.

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 Corporate Director Business and Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Corporate Director Business and Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority'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.

Section 4 – Core Financial Statements

Other information
The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Corporate Director Business and 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, South 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.

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 Corporate Director Business and Resources
As explained more fully in the Statement of Responsibilities for the Accounts set out on page 18, the Corporate Director Business and 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 Corporate Director Business and Resources is responsible for assessing the Authority'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 Authority either intends to cease operations, or has no realistic alternative but to do so.

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

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 South 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 South 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.

Section 4 – Core Financial Statements

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, South Tyneside 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 Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (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 Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate
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 Authority'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.

In addition we are required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report of Tyne and Wear Pension Fund. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2020. As the Authority has not yet prepared the Annual Report we have not yet been able to conclude on the consistency with these financial statements and we have not issued our report on those financial statements.

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.

Section 4 – Core Financial Statements

Use of our report
This report is made solely to the members of South 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 South Tyneside Council and South Tyneside Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

S R Clark
Ernst and Young LLP

Stephen Clark (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Birmingham
30 November 2020

Section 4 – Core Financial Statements

Movement in Reserves Statement

This statement shows the movement from the start of the year to the end of the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Movement in Reserves Statement shows how the movements in year of the Council'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 taxation (or rents) for the year. The (increase) or decrease lines show the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

	Note	General fund balances	Housing revenue account	Capital receipts reserve	Major repairs reserve	Total usable reserves	Unusable reserves	Total Council reserves
		£m	£m	£m	£m	£m	£m	£m
Balance at 31st March 2018 brought forward		**(33.365)**	**(21.773)**	**(2.192)**	**(4.847)**	**(62.177)**	**(83.827)**	**(146.004)**
Movement in reserves during 2018/19								
Total comprehensive (income) and expenditure		21.920	5.419	-	-	27.339	(50.598)	(23.259)
Adjustments between accounting basis and funding basis under regulations	3	(28.301)	(4.534)	0.746	3.071	(29.018)	29.018	-
(Increase) or decrease in 2018/19		**(6.381)**	**0.885**	**0.746**	**3.071**	**(1.679)**	**(21.580)**	**(23.259)**
Balance at 31st March 2019 carried forward		**(39.746)**	**(20.888)**	**(1.446)**	**(1.776)**	**(63.856)**	**(105.407)**	**(169.263)**
Movement in reserves during 2019/20								
Total comprehensive (income) and expenditure		53.348	(0.963)	-	-	52.385	(19.314)	33.071
Adjustments between accounting basis and funding basis under regulations	3	(54.218)	1.009	0.335	(2.424)	(55.298)	55.298	-
(Increase) or decrease in 2019/20		**(0.870)**	**0.046**	**0.335**	**(2.424)**	**(2.913)**	**35.984**	**33.071**
Balance at 31st March 2020 carried forward		**(40.616)**	**(20.842)**	**(1.111)**	**(4.200)**	**(66.769)**	**(69.423)**	**(136.192)**

Section 4 – Core Financial Statements

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (or rents). Councils raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

2018/19 Gross expenditure £m	2018/19 Gross income £m	2018/19 Net expenditure £m		Note	2019/20 Gross expenditure £m	2019/20 Gross income £m	2019/20 Net expenditure £m
83.128	(47.268)	35.860	Adult social care		91.761	(51.735)	40.026
28.582	(6.391)	22.191	Children and families social care		29.234	(6.430)	22.804
122.838	(107.768)	15.070	Learning and early help		132.613	(112.821)	19.792
14.432	(13.885)	0.547	Public health		14.366	(13.530)	0.836
4.137	(1.623)	2.514	Other children's, adults and health services		6.174	(2.621)	3.553
253.117	**(176.935)**	**76.182**	**Sub total children's, adults and health**		**274.148**	**(187.137)**	**87.011**
28.972	(9.651)	19.321	Asset management		26.370	(9.332)	17.038
19.339	(7.245)	12.094	Area management		20.024	(7.223)	12.801
12.357	(7.890)	4.467	Highways and transport		14.367	(9.725)	4.642
11.399	(9.792)	1.607	Other economic regeneration services		9.295	(6.561)	2.734
72.067	**(34.578)**	**37.489**	**Sub total economic regeneration**		**70.056**	**(32.841)**	**37.215**
103.221	(79.952)	23.269	Corporate finance		74.139	(67.772)	6.367
8.165	(5.181)	2.984	Leisure and libraries		8.934	(5.209)	3.725
4.461	(0.371)	4.090	Digital and ICT services		5.463	(1.087)	4.376
6.214	(1.118)	5.096	Strategy and performance		6.570	(1.235)	5.335
9.605	(3.424)	6.181	Other business and resources services		13.000	(4.094)	8.906
131.666	**(90.046)**	**41.620**	**Sub total business and resources**		**108.106**	**(79.397)**	**28.709**
58.973	**(66.616)**	**(7.643)**	**Local authority housing (HRA)**		**53.636**	**(66.583)**	**(12.947)**
515.823	**(368.175)**	**147.648**	**Cost of services**		**505.946**	**(365.958)**	**139.988**
19.295	(6.717)	12.578	Other operating income and expenditure	8	47.610	(6.465)	41.145
40.762	(2.454)	38.308	Financing and investment income and expenditure	9	41.321	(3.142)	38.179
-	(171.195)	(171.195)	Taxation and non-specific grant income	10	-	(166.927)	(166.927)
575.880	**(548.541)**	**27.339**	**Deficit on the provision of services**		**594.877**	**(542.492)**	**52.385**
			Items that will not be reclassified to the deficit on the provision of services				
		(31.162)	Surplus on revaluation of property, plant and equipment				(19.557)
		(0.083)	(Surplus) or deficit from investments in equity instruments designated as fair value through other comprehensive income				2.947
		6.667	Impairment losses on non-current assets charged to the revaluation reserve				9.686
		(26.020)	Remeasurements of the defined benefit obligation	41			(12.390)
		(50.598)	**Other comprehensive (income) and expenditure**				**(19.314)**
		(23.259)	**Total comprehensive (income) and expenditure**				**33.071**

In 2019/20 the responsibility for the area management service moved from Business and Resources Group to the Economic Regeneration Group. The prior period figures in the table above reflect where the responsibility now sits in order to aid comparisons with the current year. In previous accounts the net expenditure of Business and Resources Group was reported as £53.714m and Economic Regeneration Group reported as £25.395m before this adjustment.

Section 4 – Core Financial Statements

Balance Sheet

This statement shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council are matched by the usable and unusable reserves. Usable reserves are those that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. Unusable reserves are those that cannot be used to provide services. They include reserves that hold unrealised gains and losses where amounts would only become available to provide services if the assets are sold and reserves that hold timing differences as shown in the “adjustments between accounting basis and funding basis under regulations” line in the Movement in Reserves Statement.

31st March 2019 £m		Note	31st March 2020 £m
	Non-current assets		
535.213	Council dwellings	11	526.486
641.724	Other property, plant and equipment	11	630.639
3.412	Heritage assets		3.330
2.300	Investment properties		2.300
1.818	Intangible assets	12	1.462
8.879	Long term investments	13	5.932
47.529	Long term debtors	13	52.504
1,240.875	**Total non-current assets**		**1,222.653**
	Current assets		
9.390	Short term investments	13	14.376
0.619	Inventories		0.775
40.564	Short term debtors	14	36.674
12.160	Cash and cash equivalents	15	49.528
1.474	Assets held for sale	16	0.882
64.207	**Total current assets**		**102.235**
	Current liabilities		
(37.896)	Short term creditors	17	(41.745)
(1.060)	Cash and cash equivalents - bank overdraft	15	-
(43.230)	Short term borrowing	13	(48.421)
(4.290)	PFI liability due in less than one year	19	(4.757)
(3.655)	Capital grants receipts in advance	31	(3.678)
(1.078)	Short term provisions	18	(1.648)
(91.209)	**Total current liabilities**		**(100.249)**
(27.002)	**Total net current assets**		**1.986**
	Non-current liabilities		
(0.755)	Long term creditors	13	(0.369)
(1.202)	Long term provisions	18	(1.890)
(582.063)	Long term borrowing	13	(621.149)
(94.306)	Long term PFI liability	19	(89.549)
(364.450)	Liability related to defined benefit obligation	41	(373.720)
(1.834)	Other long term liabilities	13	(1.770)
(1,044.610)	**Total non-current liabilities**		**(1,088.447)**
169.263	**Total net assets**		**136.192**
	Reserves		
(63.856)	Usable reserves	20	(66.769)
(105.407)	Unusable reserves	21	(69.423)
(169.263)	**Total reserves**		**(136.192)**

Section 4 – Core Financial Statements

Cash Flow Statement

This statement shows how the Council 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 Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources that are intended to contribute to the Council'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 Council.

2018/19 £m		**Note**	**2019/20 £m**
(27.339)	**Cash and non-cash outflow from the provision of services**		**(52.385)**
124.969	Adjustment to the deficit on the provision of services for non-cash movements	22	125.990
(55.424)	Adjustment for items included in the deficit on the provision of services that are investing and financing activities	22	(36.878)
42.206	**Net cash flow from operating activities**		**36.727**
(58.479)	Investing activities	23	(41.450)
16.848	Financing activities	24	43.151
0.575	**Net increase in cash and cash equivalents**		**38.428**
10.525	**Cash and cash equivalents at the start of the year**		**11.100**
11.100	**Cash and cash equivalents at the end of the year**		**49.528**

The notes to the core financial statements are presented on pages 28 to 99 and form part of the Statement of Accounts.

Section 4 – Notes to the Core Financial Statements

Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and non-domestic rates) by the Council in comparison with those resources consumed or earned in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's Groups. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2018/19 Net expenditure chargeable to the General Fund and HRA balances	2018/19 Adjustments between the funding and accounting basis (note 5)	2018/19 Net expenditure in the Comprehensive Income and Expenditure Statement		2019/20 Outturn as reported to Cabinet	2019/20 Movement in earmarked reserves	2019/20 Net expenditure chargeable to the General Fund and HRA balances	2019/20 Adjustments between the funding and accounting basis (note 5)	2019/20 Net expenditure in the Comprehensive Income and Expenditure Statement
£m	£m	£m		£m	£m	£m	£m	£m
42.131	(6.271)	35.860	Adult social care	48.551	(1.141)	47.410	(7.384)	40.026
20.770	1.421	22.191	Children and families social care	21.614	(0.211)	21.403	1.401	22.804
9.587	5.483	15.070	Learning and early help	10.784	3.357	14.141	5.651	19.792
14.472	(13.925)	0.547	Public health	14.327	0.044	14.371	(13.535)	0.836
2.180	0.334	2.514	Other children's, adults and health services	3.129	(0.057)	3.072	0.481	3.553
89.140	**(12.958)**	**76.182**	**Sub total children's, adults and health**	**98.405**	**1.992**	**100.397**	**(13.386)**	**87.011**
10.194	9.127	19.321	Asset management	11.212	(0.088)	11.124	5.914	17.038
11.306	0.788	12.094	Area management	11.401	0.387	11.788	1.013	12.801
(1.106)	5.573	4.467	Highways and transport	(1.150)	(0.027)	(1.177)	5.819	4.642
1.114	0.493	1.607	Other economic regeneration services	1.304	0.277	1.581	1.153	2.734
21.508	**15.981**	**37.489**	**Sub total economic regeneration**	**22.767**	**0.549**	**23.316**	**13.899**	**37.215**
(4.584)	27.853	23.269	Corporate finance	(10.627)	(3.637)	(14.264)	20.631	6.367
0.805	2.179	2.984	Leisure and libraries	0.342	0.070	0.412	3.313	3.725
3.266	0.824	4.090	Digital and ICT services	3.907	(0.067)	3.840	0.536	4.376
4.381	0.715	5.096	Strategy and performance	4.398	0.016	4.414	0.921	5.335
4.684	1.497	6.181	Other business and resources services	4.747	0.593	5.340	3.566	8.906
8.552	**33.068**	**41.620**	**Sub total business and resources**	**2.767**	**(3.025)**	**(0.258)**	**28.967**	**28.709**
0.885	**(8.528)**	**(7.643)**	**Local authority housing (HRA)**	**0.046**	**-**	**0.046**	**(12.993)**	(12.947)
120.085	**27.563**	**147.648**	**Cost of services**	**123.985**	**(0.484)**	**123.501**	**16.487**	**139.988**
-	12.578	12.578	Other operating income and expenditure	-	-	-	41.145	41.145
(0.060)	38.368	38.308	Financing and investment income and expenditure	-	-	-	38.179	38.179
(125.733)	(45.462)	(171.195)	Taxation and non-specific grant income	(124.325)	-	(124.325)	(42.602)	(166.927)
(5.708)	**33.047**	**27.339**	**Deficit on the provision of services**	**(0.340)**	**(0.484)**	**(0.824)**	**53.209**	**52.385**

2018/19		2019/20
(21.773)	HRA balance at start of year	(20.888)
(1.392)	General Fund unallocated balance at start of year	(4.512)
(23.165)	**Total balances at start of year**	**(25.400)**
0.885	Movement in HRA balance in year	0.046
(3.120)	Movement in General Fund unallocated balance in year	(0.386)
(2.235)	**Total movement in balances for the year**	**(0.340)**
(20.888)	HRA balance at end of year	(20.842)
(4.512)	General Fund unallocated balance at end of year	(4.898)
(25.400)	**Total balances at end of year**	**(25.740)**

Section 4 – Notes to the Core Financial Statements

Note 1. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in note 43, the Council 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 set out below.

Government Funding

There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that its assets might be impaired as a result of a need to close facilities and reduce levels of service provision.

Accounting for Assets – Balance Sheet Recognition

The Council has four types of schools within the borough – community, voluntary aided (VA), trust and academy. Only community schools are recognised on the Balance Sheet as the other categories are not deemed to be under the ownership of the Council.

The table below details the number of schools in each category as at 31st March 2020:

	Nursery, Primary or Special	Secondary
Community	34	4
VA	12	0
Academy	6	4
Trust	2	1
	54	**9**

Private Finance Initiatives (PFI)

The Council is deemed to control the services provided under the PFI agreements for three secondary schools, the Council's street lighting and a share of a waste recycling facility on Teesside. The accounting policies for PFI schemes and similar contracts have been applied to the arrangements and assets totalling £101.097m (£105.331m in 2018/19) are recognised as property, plant and equipment on the Council's Balance Sheet. Further information can be found in notes 11 and 19.

Leases

The Council constructed a new office facility at Harton Quay, South Shields in 2011. The office was leased to British Telecommunications PLC on 29th September 2011 for an initial lease term of 14½ years. The primary purpose of the office facility is to secure new jobs for the borough and facilitate regeneration of the riverside area. Although the asset generates rental income and may result in capital appreciation, these were not the primary purposes of the project. The Council has reviewed the terms of the lease agreement and concluded that this is an operating lease. For this reason, the Council has accounted for this asset as property, plant and equipment on the Balance Sheet with a value at 31st March 2020 of £9.303m (£9.652m in 2018/19).

The Council owns assets leased to third parties e.g. factory and retail units, with a value at 31st March 2020 of £30.314m (£29.679m in 2018/19). Whilst the Council does receive rental income, the primary purpose of holding these assets is job creation and regeneration of the borough. The assets have therefore been accounted for as property, plant and equipment rather than investment properties on the Balance Sheet.

Section 4 – Notes to the Core Financial Statements

Property, Plant and Equipment

As a result of the outbreak of Covid-19, declared by the World Health Organisation as a “global pandemic” on 11th March 2020, market activity is being impacted in many sectors. As at the valuation date, the Council considers that it can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the response to Covid-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. Our valuations are therefore 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 the reported valuation of property, plant and equipment than would normally be the case.

Newcastle Airport Holding

The Council is one of seven local authorities (the ‘LA7’) who hold an overall 51% shareholding in Newcastle Airport. The fair value of these shares 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. A full valuation took place as at 31st March 2019 and contains a number of assumptions around future income cashflows for the company and the marketability of the shares before arriving at the fair value.

Due to the impact of the Coronavirus pandemic the operations of the airport were severely curtailed towards the end of the financial year. As a result an impairment of the shareholding has been recognised in these accounts. This impairment is based on projecting forward expected earnings before interest, tax, depreciation and amortisation (EBITDA) and comparing that to the EBITDA for 2019 before the pandemic had any impact. This has resulted in an impairment of 33% of the value recognised in the previous year. This is roughly in line with recent stock market movements for shares in other worldwide airports following the pandemic.

Note 2. Assumptions made about the Future and Other Sources of Estimation

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about what may happen in the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However because balances cannot be determined with certainty, actual results could be materially different from these assumptions and estimates. The items in the Council’s Balance Sheet at 31st March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are described below.

Approach to Fair Value

When the fair values of financial assets or liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs) their fair value is measured using valuation techniques. Where possible the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing their fair values. These judgements typically include considerations such as uncertainty and risk. The significant unobservable inputs used include management assumptions regarding rent growth and discount rates adjusted for regional factors. Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for surplus assets and financial instruments.

Information about the valuation techniques and inputs used in determining the fair value of the Council’s assets and liabilities is disclosed in notes 11 and 13.

Section 4 – Notes to the Core Financial Statements

Beacon Approach to Valuations

The Council adopts a beacon approach to the valuation of dwellings and sheltered housing units. This involves valuing a single property in an area and then applying that valuation to properties in a similar location and with similar characteristics. The Council has identified 259 beacon properties to cover the whole borough (258 in 2018/19). Property values are affected by a number of factors and a 1% movement on the assumed valuation would change the reported value of dwellings by £5.265m (£5.352m in 2018/19) and other land and buildings by £0.377m (£0.352m as amended in 2018/19).

Other Land and Property Valuations

For other valuations the Council adopts a rolling programme which results in material assets being revalued at least once every five years. A 1% movement in valuations prior to 1st April 2019 would change the reported value of other land and buildings and surplus assets by £3.223m (£4.047m in 2018/19).

Useful Economic Lives

Property, plant and equipment 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. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets fall. It is estimated that the annual depreciation charge for buildings would increase by £6.132m (£3.992m in 2018/19) for every year that useful lives had to be reduced.

Newcastle Airport Valuation

The valuation of the investment in Newcastle Airport is subject to a number of complex judgements relating to the discount rate used, the levels of income that will be generated by the company in future years, the current value of any surplus assets available to the company and a discount factor to reflect the lack of marketability of the shares. An expert firm of accountants was engaged to provide the Council with a valuation as at 31st March 2019. This valuation has been impaired in year to account for the impact of the Coronavirus pandemic. A further 10% movement in the value of the shareholding would adjust the balance sheet by £0.593m (£0.888m in 2018/19).

Liability relating to the Defined Benefit Obligation

Estimation of the defined benefit obligation 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. An expert firm of actuaries is engaged to provide the Council with advice about the assumptions applied. The effects on the net defined benefit obligation of changes in individual assumptions can be measured. The results can be found in the sensitivity analysis section of note 41 on pages 75 and 76.

However the assumptions interact in complex ways. During 2019/20 the Council's actuaries advised that the defined benefit obligation for funded liabilities had decreased by £13.010m (increased by £1.850m as amended in 2018/19) as a result of estimates being corrected for experience and decreased by £39.990m (increased by £15.750m as amended in 2018/19) due to updating of financial and demographic assumptions. Re-measurement of Fund assets led to a £41.660m increase (£41.670m decrease as amended in 2018/19).

Section 4 – Notes to the Core Financial Statements

Note 3. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2019/20	Usable reserves General Fund balance £m	Housing revenue account £m	Capital receipts reserve £m	Major repairs reserve £m	Movement in unusable reserves £m
Adjustments primarily involving the capital adjustment account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non-current assets	(30.201)	(22.234)	-	-	52.435
Contribution towards the major repairs reserve	-	18.410	-	(18.410)	-
Revaluation gains on property, plant and equipment	0.400	5.558	-	-	(5.958)
Amortisation of intangible assets	(0.777)	-	-	-	0.777
Capital grants and contributions applied	15.049	-	-	-	(15.049)
Capital receipts not linked to non-current assets	0.025	0.084	(0.426)	-	0.317
Revenue expenditure funded from capital under statute	(0.841)	(0.252)	-	-	1.093
Amounts of current and non-current assets written off as part of the loss on disposal	(29.151)	(7.414)	-	-	36.565
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Provision for the financing of capital investment	11.279	-	-	-	(11.279)
Capital expenditure charged against balances	1.579	0.130	-	-	(1.709)
Adjustments primarily involving the capital receipts reserve and the major repairs reserve:					
Transfer of cash sale proceeds credited as part of the loss on disposal	0.018	6.892	(6.910)	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	2.185	-	(2.185)
Use of the capital receipts reserve in lieu of debt set aside	-	-	3.318	-	(3.318)
Contribution towards administrative costs of non-current asset disposals	(0.001)	(0.165)	0.166	-	-
Contribution towards the payments to the Government capital receipts pool	(2.002)	-	2.002	-	-
Use of the major repairs reserve to finance new capital expenditure	-	-	-	15.986	(15.986)
Adjustments primarily involving the pensions reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 41)	(36.051)	-	-	-	36.051
Employer's pensions contributions and direct payments to pensioners payable in the year	15.620	-	-	-	(15.620)
Other adjustments to unusable reserves:					
Amount by which finance costs charged are different from finance costs chargeable in accordance with statutory requirements	(0.026)	-	-	-	0.026
Amount by which council tax and non-domestic rates are different from income in accordance with statutory requirements	0.919	-	-	-	(0.919)
Employee benefits accrued during the year	(0.057)	-	-	-	0.057
Total adjustments	**(54.218)**	**1.009**	**0.335**	**(2.424)**	**55.298**

Section 4 – Notes to the Core Financial Statements

The equivalent figures for the previous year are as follows:

2018/19	General Fund balance £m	Usable reserves Housing revenue account £m	Capital receipts reserve £m	Major repairs reserve £m	Movement in unusable reserves £m
Adjustments primarily involving the capital adjustment account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non-current assets	(28.707)	(26.135)	-	-	54.842
Contribution towards the major repairs reserve	-	18.115	-	(18.115)	-
Revaluation (losses) or gains on property, plant and equipment	(1.854)	6.033	-	-	(4.179)
Amortisation of intangible assets	(0.719)	-	-	-	0.719
Capital grants and contributions applied	28.974	-	-	-	(28.974)
Capital receipts not linked to non-current assets	-	0.055	(0.293)	-	0.238
Revenue expenditure funded from capital under statute	(2.084)	(1.328)	-	-	3.412
Amounts of current and non-current assets written off as part of the loss on disposal	(0.570)	(6.834)	-	-	7.404
Other movements	0.001	-	(0.001)	-	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Provision for the financing of capital investment	12.099	-	-	-	(12.099)
Capital expenditure charged against balances	0.609	-	-	-	(0.609)
Adjustments primarily involving the capital receipts reserve and the major repairs reserve:					
Transfer of cash sale proceeds credited as part of the loss on disposal	0.632	5.750	(6.382)	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	2.809	-	(2.809)
Use of the capital receipts reserve in lieu of debt set aside	-	-	2.238	-	(2.238)
Contribution towards administrative costs of non-current asset disposals	(0.012)	(0.190)	0.202	-	-
Contribution towards the payments to the Government capital receipts pool	(2.173)	-	2.173	-	-
Use of the major repairs reserve to finance new capital expenditure	-	-	-	21.186	(21.186)
Adjustments primarily involving the pensions reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 41)	(49.044)	-	-	-	49.044
Employer's pensions contributions and direct payments to pensioners payable in the year	15.150	-	-	-	(15.150)
Other adjustments to unusable reserves:					
Amount by which finance costs charged are different from finance costs chargeable in accordance with statutory requirements	(0.487)	-	-	-	0.487
Amount by which council tax and non-domestic rates are different from income in accordance with statutory requirements	0.068	-	-	-	(0.068)
Employee benefits accrued during the year	(0.184)	-	-	-	0.184
Total adjustments	**(28.301)**	**(4.534)**	**0.746**	**3.071**	**29.018**

The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

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

Section 4 – Notes to the Core Financial Statements

Housing Revenue Account (HRA) Balance

The HRA balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function.

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. The balance on the reserve shows the resources that have yet to be applied for these purposes.

Major Repairs Reserve

The Council 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.

Note 4. Major Items of Income and Expenditure

In 2018/19 £14.845m of revaluation losses accounted for on dwellings in prior years was reversed back into the local authority housing (HRA) line of the Comprehensive Income and Expenditure Statement. The equivalent figure for 2019/20 is £12.347m.

Note 5. Expenditure and Funding Analysis Note

2019/20	**Adjustments for capital purposes**	**Net change for the pension adjustments**	**Other differences**	**Total adjustments**
	£m	**£m**	**£m**	**£m**
Adult social care	0.654	1.302	(9.340)	(7.384)
Children and families social care	0.264	1.328	(0.191)	1.401
Learning and early help	6.055	4.550	(4.954)	5.651
Public health	-	0.110	(13.645)	(13.535)
Other children's, adults and health services	0.003	0.272	0.206	0.481
Sub total children's, adults and health	**6.976**	**7.562**	**(27.924)**	**(13.386)**
Asset management	7.359	0.797	(2.242)	5.914
Area management	3.364	0.602	(2.953)	1.013
Highways and transport	5.690	0.542	(0.413)	5.819
Other economic regeneration services	0.993	0.728	(0.568)	1.153
Sub total economic regeneration	**17.406**	**2.669**	**(6.176)**	**13.899**
Corporate finance	(0.023)	(2.067)	22.721	20.631
Leisure and libraries	2.957	0.648	(0.292)	3.313
Digital and ICT services	0.946	0.379	(0.789)	0.536
Strategy and performance	0.004	0.635	0.282	0.921
Other business and resources services	2.334	1.002	0.230	3.566
Sub total business and resources	**6.218**	**0.597**	**22.152**	**28.967**
Local authority housing (HRA)	**(12.993)**	**-**	**-**	**(12.993)**
Cost of services	**17.607**	**10.828**	**(11.948)**	**16.487**
Other operating income and expenditure	29.147	1.043	10.955	41.145
Financing and investment income and expenditure	-	8.560	29.619	38.179
Taxation and non-specific grant income	(14.268)	-	(28.334)	(42.602)
Deficit on the provision of services	**32.486**	**20.431**	**0.292**	**53.209**

Section 4 – Notes to the Core Financial Statements

The adjustments for capital purposes column adds in depreciation, amortisation, impairments and revaluation losses or gains for each of the service lines. In the other operating income and expenditure line it adjusts for capital disposals and the transfer of income on disposal of assets and the amounts written off for those assets as well as depreciation charged to trading activities. In the taxation and non-specific grant income line capital grants receivable in the year without conditions or for which conditions were satisfied in the year have been credited.

The net change for the pension adjustments column for service lines represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service costs and past service costs. For the other operating income and expenditure line this represents those charges in relation to traded activities. For the financing and investment income and expenditure line it represents the net interest on the defined benefit liability.

The other differences column represents amounts debited or credited to the Comprehensive Income and Expenditure Statement and amounts payable or receivable to be recognised under statute and any costs or income that report as part of the service lines under management accounts but represent items that are reported below the cost of services line in the Comprehensive Income and Expenditure Statement.. For the other operating income and expenditure line this is the recognition of levies, the capital pooling payment and traded activities. For the financing and investment income and expenditure it recognises interest paid and received as well as the debt repayments statutorily required for the PFI contracts. For the taxation and non-specific grant income line it represents the consolidation of unringfenced Government grants and the difference between what is chargeable under statutory regulations for council tax and non-domestic rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. The latter is a timing difference as any difference will be brought forward in future surpluses or deficits on the Collection Fund.

The equivalent table for the previous year is as follows:

2018/19	**Adjustments for capital purposes**	**Net change for the pension adjustments**	**Other differences**	**Total adjustments**
	£m	**£m**	**£m**	**£m**
Adult social care	0.540	0.916	(7.727)	(6.271)
Children and families social care	0.339	1.054	0.028	1.421
Learning and early help	7.640	3.899	(6.056)	5.483
Public health	-	0.078	(14.003)	(13.925)
Other children's, adults and health services	0.006	0.185	0.143	0.334
Sub total children's, adults and health	**8.525**	**6.132**	**(27.615)**	**(12.958)**
Asset management	10.580	0.591	(2.044)	9.127
Area management	3.100	0.433	(2.745)	0.788
Highways and transport	5.189	0.386	(0.002)	5.573
Other economic regeneration services	0.937	0.559	(1.003)	0.493
Sub total economic regeneration	**19.806**	**1.969**	**(5.794)**	**15.981**
Corporate finance	0.015	16.162	11.676	27.853
Leisure, libraries and community facilities	1.828	0.609	(0.258)	2.179
Digital and ICT services	0.690	0.134	-	0.824
Strategy and performance	0.004	0.470	0.241	0.715
Other business and resources services	0.412	0.473	0.612	1.497
Sub total business and resources	**2.949**	**17.848**	**12.271**	**33.068**
Local authority housing (HRA)	**(8.528)**	**-**	**-**	**(8.528)**
Cost of services	**22.752**	**25.949**	**(21.138)**	**27.563**
Other operating income and expenditure	(0.050)	-	12.628	12.578
Financing and investment income and expenditure	-	9.070	29.298	38.368
Taxation and non-specific grant income	(26.890)	-	(18.572)	(45.462)
Deficit on the provision of services	**(4.188)**	**35.019**	**2.216**	**33.047**

Section 4 – Notes to the Core Financial Statements

The Council's expenditure and income can be analysed as follows:

2018/19 £m		2019/20 £m
180.133	Employee benefit expenses	178.608
11.665	Support services recharges	12.025
279.681	Other service expenses	277.611
53.258	Depreciation, revaluation loss or gain, amortisation and impairment	47.254
39.452	Interest payments	39.339
8.303	Precepts and levies	8.214
2.173	Payments to housing receipts pool	2.002
1.215	Loss on disposal of current and non-current assets	29.824
575.880	**Total expenditure**	**594.877**
(179.168)	Fees, charges and other service income	(184.165)
(2.224)	Interest and investment income	(2.912)
(73.289)	Income from council tax and non domestic rates	(76.201)
(33.610)	Non domestic rates top up grant	(34.377)
(260.250)	Other grants and contributions	(244.837)
(548.541)	**Total income**	**(542.492)**
27.339	**Deficit on the provision of services**	**52.385**

Note 6. Transfers to or from Earmarked Reserves

This note details the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure. Earmarked reserves are held for specific purposes and are not intended to support general Council spending.

The following table shows the movement in earmarked reserve balances for the past two years.

	Balance at 31st March 2018 £m	Transfers out 2018/19 £m	Transfers in 2018/19 £m	Balance at 31st March 2019 £m	Transfers out 2019/20 £m	Transfers in 2019/20 £m	Balance at 31st March 2020 £m
Strategic reserve	(3.021)	-	-	(3.021)	-	-	(3.021)
School balances	(1.629)	4.153	(3.744)	(1.220)	1.792	1.613	2.185
Insurance reserve	(2.935)	-	(0.234)	(3.169)	0.602	-	(2.567)
Future funding reserve	(13.930)	-	(2.963)	(16.893)	2.734	-	(14.159)
Emergency reserve	-	-	-	-	-	(6.034)	(6.034)
Other reserves	(10.458)	1.690	(2.163)	(10.931)	1.076	(2.267)	(12.122)
Total earmarked reserves	**(31.973)**	**5.843**	**(9.104)**	**(35.234)**	**6.204**	**(6.688)**	**(35.718)**

Strategic Reserve

This reserve covers emergency events such as unforeseen financial liabilities or natural disasters. This reserve is at least equivalent to 2% of the Council's net revenue budget.

School Balances

This amount represents the cumulative net unspent or overspent element of school budgets, which, in accordance with Government legislation, must be carried forward into the following financial year. Surplus balances are committed to be spent on education. Included in the school balances are eighteen schools (eight in 2018/19) in a deficit position totalling £4.594m (£2.885m in 2018/19).

Insurance Reserve

The insurance reserve balance represents funding to pay for future claims over and above the known claims recognised as provisions.

Future Funding Reserve

This reserve provides cover against the expected continuing funding pressures over the coming few years.

Emergency Reserve

This reserve represents Government funding received at the end of the 2019/20 financial year in order to cover the emergency payments to local businesses and additional Council costs arising from the Coronavirus pandemic.

Other Reserves

Amounts set aside for specific expenditure commitments.

Note 7. Events after the Reporting Period

The Statement of Accounts has been certified as giving a true and fair view by the Corporate Director Business and Resources on 26th November 2020. They include any events taking place between this date and the date of the Balance Sheet where these events would affect the reported position at 31st March 2020. No such events have taken place.

Note 8. Other Operating Income and Expenditure

Other operating income and expenditure is made up of the following items:

2018/19 £m		2019/20 £m
8.304	Levies	8.215
2.173	Payments to the Government housing capital receipts pool	2.002
0.877	Deficit on trading undertakings	1.104
1.224	Loss on the disposal of current and non-current assets	29.824
12.578	**Total other operating income and expenditure**	**41.145**

Note 9. Financing and Investment Income and Expenditure

Financing and investment income and expenditure is made up of the following items:

2018/19 £m		2019/20 £m
30.402	Interest payable and similar charges	30.779
1.290	Impairment of financial and non-financial assets	1.982
9.070	Net interest expense of defined benefit liability and interest income on scheme assets	8.560
(2.160)	Interest receivable	(2.396)
(0.064)	Dividends receivable	(0.516)
(0.230)	Income in relation to investment properties	(0.230)
38.308	**Total financing and investment income and expenditure**	**38.179**

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Note 10. Taxation and Non-specific Grant Income

Taxation and non-specific grant income is made up of the following items:

2018/19 £m		2019/20 £m
(58.802)	Council tax income	(62.440)
(13.693)	Non-domestic rates	(13.761)
(36.949)	Non-domestic rates Government grants	(37.995)
(34.861)	Other unringfenced Government revenue grants	(38.463)
(26.890)	Capital grants and contributions	(14.268)
(171.195)	**Total taxation and non-specific grant income**	**(166.927)**

Note 11. Property, Plant and Equipment

The following table analyses the movement in property, plant and equipment for the year and identifies the value of assets held under PFI arrangements:

2019/20	**Council dwellings**	**Other buildings**	**Other land**	**Vehicles, plant and equipment**	**Infrastructure assets**	**Community assets**	**Surplus assets**	**Assets under construction**	**Total property, plant and equipment**	**PFI assets included in property, plant and equipment**
Cost or valuation	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1st April 2019	**595.987**	**422.091**	**50.408**	**49.304**	**200.236**	**12.595**	**4.203**	**30.233**	**1,365.057**	**119.927**
Additions	12.642	14.554	0.100	4.824	15.525	1.300	0.124	3.589	52.658	-
Revaluation to revaluation reserve	(5.891)	3.055	0.644	-	-	-	-	-	(2.192)	-
Revaluation to Comprehensive Income and Expenditure Statement	4.423	1.541	(0.306)	-	-	-	0.300	-	5.958	-
Impairment to Comprehensive Income and Expenditure Statement	(3.434)	(2.502)	-	(0.010)	(0.173)	-	(0.089)	-	(6.208)	-
Sales and other derecognition	(7.083)	(29.576)	(0.009)	(0.996)	-	-	(0.113)	(0.476)	(38.253)	-
Reclassification of assets	(0.319)	25.150	-	-	-	-	0.016	(25.165)	(0.318)	-
At 31st March 2020	**596.325**	**434.313**	**50.837**	**53.122**	**215.588**	**13.895**	**4.441**	**8.181**	**1,376.702**	**119.927**
Depreciation										
At 1st April 2019	**(60.774)**	**(35.897)**	**-**	**(35.777)**	**(51.622)**	**(4.043)**	**(0.007)**	**-**	**(188.120)**	**(14.596)**
Depreciation to Comprehensive Income and Expenditure Statement	(16.153)	(18.258)	-	(3.684)	(7.440)	(0.602)	(0.009)	-	(46.146)	(4.234)
Depreciation written out to revaluation reserve	2.185	3.198	-	-	-	-	-	-	5.383	-
Depreciation written out on revaluation	3.694	2.987	-	-	-	-	-	-	6.681	-
Sales and other derecognition	1.173	0.440	-	0.976	-	-	-	-	2.589	-
Reclassification of assets	0.036	-	-	-	-	-	-	-	0.036	-
At 31st March 2020	**(69.839)**	**(47.530)**	**-**	**(38.485)**	**(59.062)**	**(4.645)**	**(0.016)**	**-**	**(219.577)**	**(18.830)**
Balance sheet amount at 31st March 2019	**535.213**	**386.194**	**50.408**	**13.527**	**148.614**	**8.552**	**4.196**	**30.233**	**1,176.937**	**105.331**
Balance sheet amount at 31st March 2020	**526.486**	**386.783**	**50.837**	**14.637**	**156.526**	**9.250**	**4.425**	**8.181**	**1,157.125**	**101.097**

Other land and buildings at 31st March 2020 includes £2.721m in respect of leased assets (£2.834m in 2018/19).

The equivalent movements for the previous year are as follows:

2018/19	Council dwellings	Other buildings	Other land	Vehicles, plant and equipment	Infrastructure assets	Community assets	Surplus assets	Assets under construction	Total property, plant and equipment	PFI assets included in property, plant and equipment
Cost or valuation	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1st April 2018	**587.822**	**410.012**	**51.763**	**43.950**	**182.840**	**12.346**	**2.708**	**9.982**	**1,301.423**	**119.927**
Additions	15.820	12.147	0.058	6.411	17.522	0.249	0.877	21.909	74.993	-
Revaluation to revaluation reserve	2.123	(0.654)	2.351	-	-	-	0.615	-	4.435	-
Revaluation to Comprehensive Income and Expenditure Statement	5.505	1.951	(2.921)	-	-	-	(0.356)	-	4.179	-
Impairment to Comprehensive Income and Expenditure Statement	(7.127)	(2.973)	-	(0.012)	(0.126)	-	(0.344)	-	(10.582)	-
Sales and other derecognition	(7.494)	(0.050)	(0.074)	(1.045)	-	-	(0.167)	-	(8.830)	-
Reclassification of assets	(0.662)	1.658	(0.769)	-	-	-	0.870	(1.658)	(0.561)	-
At 31st March 2019	**595.987**	**422.091**	**50.408**	**49.304**	**200.236**	**12.595**	**4.203**	**30.233**	**1,365.057**	**119.927**
Depreciation										
At 1st April 2018	**(53.990)**	**(30.349)**	**-**	**(33.344)**	**(44.808)**	**(3.571)**	**(0.009)**	**-**	**(166.071)**	**(10.362)**
Depreciation to Comprehensive Income and Expenditure Statement	(15.974)	(17.533)	-	(3.339)	(6.814)	(0.472)	(0.008)	-	(44.140)	(4.234)
Depreciation to revaluation reserve	1.942	1.828	-	-	-	-	0.001	-	3.771	-
Depreciation written out on revaluation	6.106	10.155	-	-	-	-	0.009	-	16.270	-
Sales and other derecognition	1.090	0.002	-	0.906	-	-	-	-	1.998	-
Reclassification of assets	0.052	-	-	-	-	-	-	-	0.052	-
At 31st March 2019	**(60.774)**	**(35.897)**	**-**	**(35.777)**	**(51.622)**	**(4.043)**	**(0.007)**	**-**	**(188.120)**	**(14.596)**
Balance sheet amount at 31st March 2018	**533.832**	**379.663**	**51.763**	**10.606**	**138.032**	**8.775**	**2.699**	**9.982**	**1,135.352**	**109.565**
Balance sheet amount at 31st March 2019	**535.213**	**386.194**	**50.408**	**13.527**	**148.614**	**8.552**	**4.196**	**30.233**	**1,176.937**	**105.331**

Revaluations, Depreciation and Componentisation

The Council carries out a rolling programme that ensures that all property, plant and equipment required to be measured at fair value is revalued at least every five years. All valuations are undertaken in-house and approved by the Valuation Team Leader, L. McGuigan (M.R.I.C.S.). The valuations have been made in accordance with the Statements of Valuation Practice and Guidance Notes issued by the Asset Valuation Standards Committee of the Royal Institution of Chartered Surveyors so far as these are consistent with the stated and agreed requirements.

Due to the impact of Covid-19 as at the valuation date less weight can be attached to previous market evidence for comparison purposes, to inform opinions of value. Faced with an unprecedented set of circumstances on which to base a judgement the valuations are reported in these accounts 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 the valuations than would normally be the case. The Council considers that it has few and relatively low value assets in the categories where the values would be most at risk to material variations.

Where property, plant or equipment has been revalued the date of the valuation is 1st April 2019 unless significant spending in year has taken place in which case the valuation date is 31st March 2020. Where appropriate, valuations reflect accumulated depreciation. The Council only recognises components where these are considered material. Further details of the Council’s depreciation and componentisation policy can be found in note 43 accounting policies.

Significant Observable Inputs – Level 2

The fair value for the surplus assets has mainly been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the Council area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant.

Section 4 – Notes to the Core Financial Statements

The following table analyses the value of the property, plant and equipment held, broken down into historic cost or by year of valuation.

	Council dwellings	Other land and buildings	Surplus asset	Other assets	Total
	£m	£m	£m	£m	£m
Valued at historic cost	-	0.130	-	188.461	188.591
Valued at current value in:					
2019/20	283.707	92.932	1.845	-	378.484
2018/19	132.916	90.525	2.427	0.095	225.963
2017/18	31.476	100.586	0.041	-	132.103
2016/17	78.387	109.935	-	-	188.322
2015/16	-	43.512	0.112	0.038	43.662
Total cost or valuation	**526.486**	**437.620**	**4.425**	**188.594**	**1,157.125**

Capital Commitments

As at 31st March 2020 the Council has entered into a number of contracts for the construction or enhancement of property, plant and equipment budgeted to cost £10.835m (£3.393m in 2018/19). Details of capital contract commitments over £0.500m as at 31st March 2020 are as shown in the table below.

Capital scheme		Remaining commitment at 31st March 2020 £m	Period of commitment Years
Viking energy network, Jarrow	A clean and green environment	9.795	3
South Shields transport interchange	Town centre regeneration	0.530	1
Total		**10.325**	

Note 12. Intangible Assets

The movement on intangible asset balances during the year is as follows:

2018/19 Software	2018/19 Climate change allowances	2018/19 Total		2019/20 Software	2019/20 Climate change allowances	2019/20 Total
£m	£m	£m		£m	£m	£m
			Balance at start of year:			
6.301	0.576	6.877	Gross book value	7.095	0.179	7.274
(4.812)	-	(4.812)	Accumulated amortisation	(5.456)	-	(5.456)
1.489	**0.576**	**2.065**	**Net book value at start of year**	**1.639**	**0.179**	**1.818**
0.879	-	0.879	Additions	0.627	-	0.627
(0.075)	(0.397)	(0.472)	Disposals	(0.093)	(0.176)	(0.269)
(0.010)	-	(0.010)	Impairment to Comprehensive Income and Expenditure Statement	-	(0.003)	(0.003)
0.075	-	0.075	Amortisation written out on disposal	0.066	-	0.066
(0.719)	-	(0.719)	Amortisation for the period	(0.777)	-	(0.777)
1.639	**0.179**	**1.818**	**Net book value at end of year**	**1.462**	**-**	**1.462**
			Comprising:			
7.095	0.179	7.274	Gross book value	7.629	-	7.629
(5.456)	-	(5.456)	Accumulated amortisation	(6.167)	-	(6.167)
1.639	**0.179**	**1.818**	**Net book value at end of year**	**1.462**	**-**	**1.462**

Section 4 – Notes to the Core Financial Statements

Note 13. Financial Instruments

This note provides information on financial instruments to help the reader identify, quantify and inform on the exposure to risk, including information on the current fair values of assets and liabilities held by the Council.

An analysis of investments and debtors between financial and non-financial assets as carried in the Balance Sheet is as follows:

	Long term investments		Long term debtors		Current investments		Current debtors	
	31st March 2019 £m	31st March 2020 £m	31st March 2019 £m	31st March 2020 £m	31st March 2019 £m	31st March 2020 £m	31st March 2019 £m	31st March 2020 £m
Financial assets at fair value through other comprehensive income - designated equity instruments								
Newcastle Airport	8.877	5.930	-	-	-	-	-	-
Financial assets at fair value through profit or loss								
Other equity instruments	0.002	0.002	-	-	-	-	-	-
Financial assets at amortised cost								
Deposits with banks and other financial institutions	-	-	-	-	9.390	14.376	-	-
Loans to associates	-	-	36.168	40.711	-	-	0.312	0.342
Loans to Newcastle Airport	-	-	7.815	7.094	-	-	-	-
Other long and short term debtors	-	-	3.546	4.699	-	-	11.364	13.562
Total financial assets	**8.879**	**5.932**	**47.529**	**52.504**	**9.390**	**14.376**	**11.676**	**13.904**
Non financial assets	-	-	-	-	-	-	28.888	22.770
Total assets	**8.879**	**5.932**	**47.529**	**52.504**	**9.390**	**14.376**	**40.564**	**36.674**

An analysis of borrowings and creditors between financial and non-financial liabilities as carried in the Balance Sheet is shown in the following table:

	Long term borrowing		Long term creditors		Current borrowing		Current creditors	
	31st March 2019 £m	31st March 2020 £m	31st March 2019 £m	31st March 2020 £m	31st March 2019 £m	31st March 2020 £m	31st March 2019 £m	31st March 2020 £m
Financial liabilities at amortised cost								
Long and short term borrowing	(582.063)	(621.149)	-	-	(43.230)	(48.421)	-	-
Long and short term creditors	-	-	(0.145)	(0.179)	-	-	(23.638)	(31.699)
PFI liabilities	-	-	(94.306)	(89.549)	-	-	(4.290)	(4.757)
Finance lease liabilities	-	-	(1.834)	(1.770)	-	-	(0.058)	(0.064)
Total financial liabilities	**(582.063)**	**(621.149)**	**(96.285)**	**(91.498)**	**(43.230)**	**(48.421)**	**(27.986)**	**(36.520)**
Non financial liabilities	-	-	(0.610)	(0.190)	-	-	(14.200)	(9.982)
Total liabilities	**(582.063)**	**(621.149)**	**(96.895)**	**(91.688)**	**(43.230)**	**(48.421)**	**(42.186)**	**(46.502)**

Material Soft Loans made by the Council

During the year the Council granted a loan for £0.655m (£2.262m in 2018/19) to IAMP LLP (a company set up in partnership with Sunderland City Council). The loans have been given to fund the acquisition of land in order to create a site that can be subject to further development. The overall aim is to create an internationally-recognised destination for advanced manufacturing in the North East, which will create over 5,000 new jobs and attract over £400m of private sector investment into the region.

The loans are at nil interest and therefore the Council has reflected a net charge of £0.030m (£0.489m in 2018/19) as part of interest payable and similar charges in the Comprehensive Income and Expenditure Statement to recognise the interest income it has potentially foregone as a result of these transactions. This amount has been reversed out and transferred to the financial instruments adjustment account such that there is no cost to Council taxpayers. The value of the charge is based on the Council's borrowing cost plus an allowance for the risk that the loans might not be repaid and assumes will be repayable in ten years which is when development by the company is expected to be complete.

The following table summarises the movements in this soft loan for the year.

2018/19 £m	Soft loans	2019/20 £m
2.820	**Balance at 1st April**	**4.593**
2.262	Nominal value of loans issued in year	0.655
(0.578)	Fair value adjustment on initial recognition	(0.167)
0.089	Fair value adjustment released	0.137
4.593	**Balance at 31st March**	**5.218**

Newcastle Airport

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. On 4th May 2001, the seven local authority shareholders of NIAL (the “LA7”) created NIAL Holdings Limited, which is 51% owned by LA7 and 49% owned by AMP Capital Investors Limited following their purchase on 16th November 2012. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited (NALAHCL), a company wholly owned by the seven authorities. NALAHCL has a called up share capital of 10,000 shares with a nominal value of £1 each.

The Council holds a 10.12% interest in NALAHCL, valued at £5.930m (£8.877m 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 NALAHCL the Council has an effective shareholding of 5.16% in NIAL (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of NIAL (registered number 2077766) is the provision of landing services for both commercial and freight operators. £0.516m dividend was received for the year ended 31st December 2019 (nil for the year ended 31st December 2018).

Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012/13, issuing £67.665m shareholder loan notes of which £7.815m is provided by the Council (£7.815m in 2018/19). The loan notes will be repayable in 2032 with interest normally being received up to that date on a six monthly basis.

Due to major curtailments in the airport operations as a result of the Covid-19 pandemic the Council has agreed to modify the terms of these loans and has accepted that under the unprecedented circumstances the airport can defer interest repayments for the following two financial years with catch up payments to be made in instalments over a later period. This has resulted in a restatement of the loan value with a modification loss of £0.664m (nil in 2018/19) charged to the financing and investment income and expenditure line of the CIES. Furthermore the Council looked at several observable factors regarding the robustness of the airport operations going forward resulting in an expected lifetime loss provision of £0.098m (nil in 2018/19) in the event all repayments are not made or further delayed at some time in the future.

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

Section 4 – Notes to the Core Financial Statements

NIAL Group Limited made a profit before tax of £11.007m and a profit after tax of £7.502m for the year ended 31st December 2019. 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.

Financial Instruments Designated as Fair Value through Profit or Loss

Investments designated as fair value through profit or loss exposes the Council to potential losses of £0.002m (£0.002m in 2018/19).

Income, Expense, Gains and Losses

The amounts recognised in the deficit on the provision of services in relation to financial instruments are made up as follows:

	2018/19				2019/20			
	Financial liabilities measured at amortised cost	Financial assets measured at amortised cost	Equity instruments measured at fair value through profit or loss	Total	Financial liabilities measured at amortised cost	Financial assets measured at amortised cost	Equity instruments measured at fair value through other comprehensive income and expenditure	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Expenses								
Impairment losses charged to deficit on provision of services	-	1.007	0.025	1.032	-	1.318	-	1.318
Modification losses	-	-	-	-	-	-	0.664	0.664
Interest expense	30.402	-	-	30.402	30.779	-	-	30.779
Income								
Interest income	-	(2.160)	-	(2.160)	-	(2.396)	-	(2.396)
Dividends	-	-	-	-	-	-	(0.516)	(0.516)
Net loss or (profit) for the year	**30.402**	**(1.153)**	**0.025**	**29.274**	**30.779**	**(1.078)**	**0.148**	**29.849**
Impairment losses recognised as other comprehensive income and expenditure	-	-	-	-	-	-	2.947	2.947
Total loss or (profit) for the year	**30.402**	**(1.153)**	**0.025**	**29.274**	**30.779**	**(1.078)**	**3.095**	**32.796**

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 todays 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 assumptions on the next page.

- 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.

The fair values of long and short term borrowing differ from the carrying amount as follows:

	31st March 2019		31st March 2020	
	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m
PWLB	(609.985)	(895.770)	(636.650)	(1,110.197)
Other local authorities	(7.005)	(7.005)	(10.003)	(10.011)
Pension funds	-	-	(14.504)	(14.515)
Market debt (LOBOs)	(8.303)	(12.485)	(8.301)	(23.554)
Other private sector	-	-	(0.112)	(0.112)
Financial liabilities	**(625.293)**	**(915.260)**	**(669.570)**	**(1,158.389)**

The fair value of liabilities as at the end of the year are higher than the carrying amount because the Council’s portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. This commitment to pay interest above current market rates increases the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans.

The fair value of other liabilities and all assets are deemed to be equivalent to their carrying amount as this is a fair approximation of their value.

Section 4 – Notes to the Core Financial Statements

Note 14. Short Term Debtors

An analysis of short term debtors, including payments in advance, are shown in the following table:

31st March 2019 £m		31st March 2020 £m
	Amounts falling due in one year	
6.537	Central Government bodies	8.612
3.409	Other local authorities	2.976
1.068	NHS bodies	1.471
5.078	Housing tenants	6.225
12.900	Council tax payers	14.379
0.926	Non-domestic ratepayers	0.982
0.633	South Tyneside Homes Limited	1.042
8.419	Tyne and Wear Pension Fund	0.121
14.550	Other debtors	14.804
53.520	**Total amounts falling due in one year**	**50.612**
	Allowances for bad debts	
(3.788)	Housing tenants	(3.730)
(5.789)	Council tax payers	(6.402)
(0.454)	Non-domestic ratepayers	(0.536)
(2.925)	Other debtors	(3.270)
(12.956)	**Total bad debt allowances**	**(13.938)**
40.564	**Net debtors**	**36.674**

31st March 2019 £m		31st March 2020 £m
	Amounts written off during the year	
0.374	Housing rents (excluding write ons)	0.603
0.254	Council tax (including costs but excluding write ons)	0.331
0.149	Non-domestic rates (including costs)	0.096
0.233	Other debtors (net of VAT recovered)	0.292
1.010	**Total amounts written off during the year**	**1.322**

The total non-domestic rate write off for the year was £0.194m (£0.295m in 2018/19) with the balance being met proportionately by the Government and preceptors as defined by the rates retention scheme.

Section 4 – Notes to the Core Financial Statements

Note 15. Cash and Cash Equivalents

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

31st March 2019 £m		31st March 2020 £m
0.105	Cash held by the Council	0.110
1.042	Bank accounts	4.993
11.013	Money market funds	44.425
12.160	**Cash and cash equivalent assets**	**49.528**
(1.060)	Bank overdraft facility	-
(1.060)	**Cash and cash equivalent liabilities**	**-**
11.100	**Total cash and cash equivalent**	**49.528**

The Council continues to invest surplus cash in a low interest environment, making use of money market funds and shorter term fixed period deposits with other financial institutions for cash that will be needed in the short term. Any surplus cash not required in the short term is invested in longer fixed period deposits and recorded on the Balance Sheet as short term investments.

Note 16. Assets Held for Sale

Assets held for sale represent surplus or redundant assets that the Council is in the process of disposing and expects that disposal to take place within the next twelve months. The following table shows the movements in year:

2018/19 £m		2019/20 £m
1.537	**Balance outstanding at start of year**	**1.474**
0.509	Assets transferred from property, plant and equipment	0.283
(0.572)	Assets sold	(0.875)
1.474	**Balance outstanding at end of year**	**0.882**

Section 4 – Notes to the Core Financial Statements

Note 17. Short Term Creditors

An analysis of short term creditors and receipts in advance is shown in the following table:

31st March 2019				31st March 2020		
Creditors	**Receipts in advance**	**Total**		**Creditors**	**Receipts in advance**	**Total**
£m	**£m**	**£m**		**£m**	**£m**	**£m**
(7.499)	(0.208)	(7.707)	Central Government bodies	(6.764)	(4.534)	(11.298)
(0.500)	(0.020)	(0.520)	Other local authorities	(0.336)	(0.114)	(0.450)
(1.275)	-	(1.275)	NHS bodies	(1.071)	(1.343)	(2.414)
-	(1.399)	(1.399)	Housing tenants	-	(1.790)	(1.790)
-	(1.530)	(1.530)	Council tax payers	-	(1.504)	(1.504)
(3.796)	-	(3.796)	South Tyneside Homes Limited	(3.743)	-	(3.743)
(3.618)	-	(3.618)	Council employees	(3.674)	-	(3.674)
(2.254)	-	(2.254)	Tyne and Wear Pension Fund	(1.778)	-	(1.778)
(15.022)	(0.773)	(15.797)	All other creditors	(13.948)	(1.146)	(15.094)
(33.964)	**(3.930)**	**(37.896)**	**Total creditors**	**(31.314)**	**(10.431)**	**(41.745)**

Note 18. Long and Short Term Provisions

An analysis of the provisions balances is as follows:

	Injury and damage compensation claims	**Other provisions**	**Total**
	£m	**£m**	**£m**
Balance at 1st April 2018	**(0.846)**	**(1.555)**	**(2.401)**
Additional provisions	(0.384)	(1.115)	(1.499)
Amounts used	0.360	1.238	1.598
Unused amounts reversed	-	0.022	0.022
Balance at 31st March 2019	**(0.870)**	**(1.410)**	**(2.280)**
Additional provisions	(1.221)	(1.958)	(3.179)
Amounts used	0.574	1.284	1.858
Unused amounts reversed	-	0.063	0.063
Balance at 31st March 2020	**(1.517)**	**(2.021)**	**(3.538)**
Short term provisions	(0.350)	(1.298)	(1.648)
Long term provisions	(1.167)	(0.723)	(1.890)
Balance at 31st March 2020	**(1.517)**	**(2.021)**	**(3.538)**

Provisions relate to potential payments under non-domestic rate appeals, redundancies and insurance claims. These provisions are primarily expected to be paid within the next three years.

Section 4 – Notes to the Core Financial Statements

Note 19. PFI and other Long Term Contracts

The Council has five operational PFI schemes. Under these agreements, the Council pays an annual sum to the operator, known as a unitary charge, and receives PFI grant to partially offset these costs. The following table summarises the key facts for each scheme.

PFI details	Boldon school	Street lights	Jarrow school	South Shields community school	Joint waste project
Date of service commencement	13/04/2005	09/12/2005	26/10/2009	06/09/2011	22/04/2014
Current PFI operator	Infrared Capital Partners	Balfour Beatty PLC	InspiredSpaces STaG Limited	InspiredSpaces STaG Limited	SITA UK Limited
Length of contract	25 years	25 years	25 years	25 years	25 years
Expiry date	31/10/2031	28/02/2031	25/10/2034	04/09/2036	31/03/2039
Closing net book value of assets (£m)	20.719	17.207	-	24.286	38.885
Unitary charge payments in year (£m)	2.712	4.426	3.486	4.188	7.437
Additional payments in year (£m)	0.246	0.029	0.004	0.117	0.049
PFI grant in year (£m)	(1.502)	(2.535)	(2.535)	(2.750)	(1.805)
Lifetime unitary charge payments (£m)	66.788	105.272	89.952	110.276	167.482
Lifetime PFI grant (£m)	(37.546)	(63.371)	(63.363)	(68.756)	(45.115)

Note that the actual level of future payments will depend on inflation rates, the satisfactory contract performance by the operator and any other contract variables.

The equivalent figures for the previous year, where different from above, are as follows:

PFI details	Boldon school	Street lights	Jarrow school	South Shields community school	Joint waste project
Closing net book value of assets (£m)	21.264	18.112	-	24.923	41.032
Unitary charge payments in year (£m)	2.673	4.377	3.451	4.148	7.284
Additional payments in year (£m)	0.217	0.048	0.047	0.081	0.304

Boldon School

This scheme was originally signed with Gleeson Consortium but was acquired by Infrared Capital Partners in December 2011. The asset consists of an extended secondary school with provision for community use of the facilities, which includes a 220 seat theatre and a 25 metre swimming pool. The contract is for the future maintenance and upkeep of both the building and the fixtures and fittings. Additional fees are payable in respect of free school meals and utilities costs. The asset will transfer back to the Council at the end of the contract.

The contractor has built and operates the school under a license from the Council to use the site. The Council is not permitted to grant any leases, licences or sell parts of the site without the contractor's consent.

Street Lights

This scheme involves the replacement and maintenance of the whole of the borough's street lighting stock and covers the replacement of outdated lighting columns and street signage, providing new lighting in areas not served before the contract start date and maintaining the stock to a minimum standard. The street lighting assets owned by the Council were transferred to the operator at the commencement of the contract and will return at the end of the contract.

Jarrow School

This scheme involved the construction of a secondary school and incorporates the future maintenance and upkeep of both the building and the fixtures and fittings. Additional fees are payable in respect of utilities costs which are then fully recovered from the school. On 15th April 2014 the assets legally transferred from the Council across to Jarrow School Trust which was created on 26th March 2010.

South Shields Community School (SSCS)

This scheme involved the construction of a secondary school and incorporates the future maintenance and upkeep of both the building and the fixtures and fittings. Additional fees are payable in respect of free school meals and utilities costs which are then fully recoverable from the school. The asset will transfer back to the Council at the end of the contract.

Joint Waste Project

The South Tyne and Wear Waste Management Partnership was established on 20th April 2011 to enable the three partner authorities (Gateshead, Sunderland and South Tyneside Councils) to jointly procure a service for the treatment and disposal of residual municipal waste. On the same date, the Partnership, led by Gateshead Council, signed a £726.617m PFI contract with a consortium led by SITA UK Limited (SITA). The Partnership was awarded £137.990m of revenue PFI grant over the life of the project.

The contract has delivered a new energy-from-waste facility on Teesside which will treat approximately 190,000 tonnes of residual waste and the Council is expected to utilise approximately 18% of the total capacity of the facility each year.

Should SITA choose to refinance its debts (subject to the Council's consent), the Council is entitled to a share of any gains of between 50% and 70% depending upon the value. From service commencement, air pollution control residue disposal and haulage costs are subject to market testing and benchmarking exercise every five years and the unitary charge must be adjusted accordingly.

The Council has full rights to use the assets within the contract for the treatment of residual municipal waste up to the maximum tonnage level set out within the contract. An additional fee is payable to SITA for the use of the waste transfer station outside normal operating hours. The energy from waste facility and waste transfer station is under the operational control of SITA during the contract.

The Council retains legal title to the land relating to the waste transfer station and the asset will revert to the Council at the end of the contract period. The energy from waste facility is constructed on land owned by SITA. At the end of the contract there are a number of options around the asset whereby the agreement could be extended or the asset would revert to the three Councils to operate along with a lease of the underlying land. The contract includes an option to extend for a period of five years beyond the contractual expiry date. It allows the Council to terminate the contract with twenty business days' notice or either party to terminate on the other party's default or in the event of force majeure (for example: war, strike, riot, natural disaster). There are provisions within the contract allowing for compensation to be paid by the defaulting party to the other in the event of termination.

Section 4 – Notes to the Core Financial Statements

Long Term PFI Contract Payments

The following table shows the movement in year for the PFI liabilities held by the Council:

2018/19 £m		2019/20 £m
(102.629)	Opening balance	(98.596)
(7.221)	Interest and contingent rents	(7.147)
11.254	Repayments	11.437
(98.596)	**Closing balance**	**(94.306)**
(4.290)	Short term liability	(4.757)
(94.306)	Long term liability	(89.549)
(98.596)	**Closing balance**	**(94.306)**

The estimated outstanding unitary charge payments for all long term PFI contracts in operation at 31st March 2020 are analysed in the following table:

2019/20	Repayment of liability £m	Interest charge £m	Lifecycle costs £m	Contingent rents £m	Service charges £m	Total £m
Amounts due:						
Within one year	4.757	6.488	0.808	0.377	9.199	21.629
Two to five years	20.193	22.842	4.193	1.777	39.358	88.363
Six to ten years	30.932	20.060	6.579	2.321	55.035	114.927
Eleven to fifteen years	26.661	8.390	6.819	0.051	43.891	85.812
Sixteen to twenty years	11.763	0.885	4.953	0.185	16.400	34.186
Total	**94.306**	**58.665**	**23.352**	**4.711**	**163.883**	**344.917**

The above table sets out the future unitary charge payments expected to be paid in relation to the five operational PFI schemes. The expected payments are split into their constituent parts based on the operators' financial models, which predict the future charges on the scheme. Most of the models assume a level of inflation which is represented as contingent rent in the table however no inflation assumption has been assumed for the Waste PFI contract.

The equivalent table showing this analysis for the previous year is as follows:

2018/19	Repayment of liability £m	Interest charge £m	Lifecycle costs £m	Contingent rents £m	Service charges £m	Total £m
Amounts due:						
Within one year	4.290	6.783	1.144	0.364	8.866	21.447
Two to five years	19.658	24.143	3.804	1.764	38.265	87.634
Six to ten years	28.838	22.187	6.552	2.353	53.975	113.905
Eleven to fifteen years	28.970	10.576	6.741	0.276	48.637	95.200
Sixteen to twenty years	16.840	1.759	6.256	0.324	23.054	48.233
Total	**98.596**	**65.448**	**24.497**	**5.081**	**172.797**	**366.419**

Other Long Term Contracts

The Council has other long term contracts that fall into more than one accounting year but these are of a recurring supply or service nature. The largest of these is a grounds maintenance contract. This commenced on 1st February 2016 and is due to run until 31st January 2022. There is an estimated value of £1.352m remaining on this contract (£2.975m in 2018/19).

Section 4 – Notes to the Core Financial Statements

Note 20. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and note 6. They are made up of the following balances:

31st March 2019 £m		31st March 2020 £m
(4.512)	General Fund balance	(4.898)
(35.234)	Earmarked reserves	(35.718)
(20.888)	Housing revenue account balance	(20.842)
(1.446)	Useable capital receipts balance	(1.111)
(1.776)	Housing major repairs reserve	(4.200)
(63.856)	**Total usable reserves**	**(66.769)**

Note 21. Unusable Reserves

The following table lists the unusable reserves held by the Council:

31st March 2019 £m		31st March 2020 £m
(204.402)	Revaluation reserve	(205.956)
(257.107)	Capital adjustment account	(229.721)
365.679	Pensions reserve	373.720
(8.877)	Financial instruments revaluation reserve	(5.930)
3.671	Employee benefits adjustment account	3.728
1.987	Financial instruments adjustment account	2.013
(4.091)	Deferred capital receipts reserve	(4.091)
(2.267)	Collection Fund adjustment account	(3.186)
(105.407)	**Total unusable reserves**	**(69.423)**

Revaluation Reserve

The revaluation reserve contains the gains made by the Council arising from increases in the value of its property, plant and equipment and heritage assets. The balance is reduced when assets with accumulated gains are revalued downwards, used in the provision of services or disposed of. The reserve contains only revaluation gains accumulated since 1st April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the capital adjustment account.

2018/19 £m	Revaluation reserve	2019/20 £m
(187.237)	**Balance at 1st April**	**(204.403)**
(31.162)	Upward revaluation of non-current assets	(19.557)
6.667	Valuation impairment charged to reserve	9.686
1.104	Accumulated gains on assets sold or scrapped	1.289
6.226	Other amounts written off to the capital adjustment account	7.029
(204.402)	**Balance at 31st March**	**(205.956)**

Capital Adjustment Account

The capital adjustment account reflects the difference between the cost of assets consumed and the capital financing set aside to pay for them. It 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.

Note 3 provides details of the source of all the transactions posted to the account with the exception of those involving the revaluation reserve.

2018/19 £m	Capital adjustment account	2019/20 £m
(244.298)	**Balance at 1st April**	**(257.107)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	
54.842	Charges for depreciation and impairment of non-current assets	52.435
(4.179)	Revaluation gains on property, plant and equipment	(5.958)
0.719	Amortisation of intangible assets	0.777
3.412	Revenue expenditure funded from capital under statute	1.093
7.404	Amounts of current and non-current assets written off on disposal or sale as part of the loss on disposal to the Comprehensive Income and Expenditure Statement	36.565
0.238	Capital receipts not linked to assets	0.318
(7.330)	Adjusting amounts written out of the revaluation reserve	(8.318)
55.106	**Net written out amount of the cost of non-current assets consumed in the year**	**76.912**
	Capital financing applied in the year	
(2.809)	Use of the capital receipts reserve to finance new capital expenditure	(2.185)
(21.186)	Use of the major repairs reserve to finance new capital expenditure	(15.986)
(28.974)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(15.049)
(12.099)	Provision for the financing of capital investment charged against the General Fund balance	(11.279)
(2.238)	Capital receipts in lieu of debt set aside	(3.318)
(0.609)	Capital expenditure charged against the General Fund and HRA balances	(1.709)
(67.915)	**Total capital financing applied**	**(49.526)**
(257.107)	**Balance at 31st March**	**(229.721)**

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 Council accounts for benefits as they 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. Statutory arrangements require benefits earned to be reversed and replaced by employer's contributions to pension funds or any pensions for which it is directly responsible. The debit balance on the pensions reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them.

2018/19 £m	Pensions reserve	2019/20 £m
357.805	**Balance at 1st April**	**365.679**
(26.020)	Actuarial gains on pensions assets and defined benefit liability	(12.390)
49.044	Reversal of items relating to retirement benefits debited or credited to the deficit on the provision of services in the Comprehensive Income and Expenditure Statement	36.051
(15.150)	Employers pension contributions and direct payments to pensioners payable in year	(15.620)
365.679	**Balance at 31st March**	**373.720**

Financial Instruments Revaluation Reserve

This reserve contains any unrealised gains or losses made by the Council arising from increases or decreases in the value of its investments that are measured at fair value through other comprehensive income. The value has moved in year due to the impact of Covid-19 resulting in temporary closure of most of Newcastle Airport's operations.

Note 22. Operating Activities

The deficit on the provision of services as reported in the Comprehensive Income and Expenditure Statement includes a number of adjustments that do not relate to the movement in cash. The adjusting items are summarised in the following table:

2018/19 £m		2019/20 £m
54.842	Depreciation and impairment	52.435
(4.179)	Revaluation (gains) or losses of property, plant and equipment	(5.958)
0.719	Amortisation of intangibles	0.777
3.920	Increase in creditors	2.349
5.451	Decrease in debtors	1.206
1.196	Increase in impairment provision for bad debts	1.080
0.108	Decrease or (increase) in inventories	(0.156)
33.894	Movement in defined benefit obligation	20.431
27.404	Carrying amount of current and non-current assets sold or scrapped	51.565
0.489	Movements in fair values of soft loans	(0.167)
0.025	Impairment of financial instruments	-
1.100	Other non-cash items charged to the deficit on the provision of services	2.428
124.969	**Adjustment to the deficit on the provision of services for non-cash movements**	**125.990**

To show the net cash flow from operating activities any items charged to the deficit on the provision of services in relation to either investing or financing activities must also be removed. These items are summarised in the table on the next page.

Section 4 – Notes to the Core Financial Statements

2018/19 £m		2019/20 £m
(20.000)	Proceeds from short term and long term investments	(15.000)
(6.382)	Proceeds from sale of property, plant and equipment	(5.910)
(28.974)	Capital grants credited to the deficit on the provision of services	(15.049)
(0.068)	Collection Fund credited to the deficit on the provision of services	(0.919)
(55.424)	**Adjustment for items included in the deficit on the provision of services that are investing and financing activities**	**(36.878)**

Operating activities within the Cashflow Statement include the following cash flows relating to interest and dividends:

2018/19 £m		2019/20 £m
2.295	Interest received	2.319
0.064	Dividends received	0.516
(30.904)	Interest paid	(33.114)

Note 23. Investing Activities

The cash flows for investing activities are made up of the following items:

2018/19 £m		2019/20 £m
(76.749)	Purchase of property, plant and equipment, heritage assets and intangible assets	(54.509)
(30.000)	Purchase of short term and long term investments	(20.000)
6.481	Proceeds from the sale of property, plant and equipment and assets held for sale	5.910
20.000	Proceeds from short term and long term investments	15.000
21.789	Other receipts from investing activities	12.149
(58.479)	**Net cash flows from investing activities**	**(41.450)**

Note 24. Financing Activities

The cash flows for financing activities are made up of the following items:

2018/19 £m		2019/20 £m
42.000	Cash receipts of short and long term borrowing	83.612
(4.084)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and PFI contracts	(4.348)
(21.000)	Repayments of short term borrowing	(37.000)
(0.068)	Other payments for financing activities	0.887
16.848	**Net cash flows from financing activities**	**43.151**

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Note 25. Trading Operations

A summary of the deficit for each of our trading operations over the last three years is shown on the following table:

		2017/18 £m	2018/19 £m	2019/20 £m
South Shields open air market	Turnover	(0.082)	(0.077)	(0.072)
	Expenditure	0.102	0.102	0.103
Cumulative deficit over last 3 years: £0.076m	**Deficit**	**0.020**	**0.025**	**0.031**
School and other catering	Turnover	(6.603)	(6.388)	(6.147)
	Expenditure	7.269	7.223	7.221
Cumulative deficit over last 3 years: £2.575m	**Deficit**	**0.666**	**0.835**	**1.074**
Building regulation charging	Turnover	(0.299)	(0.252)	(0.246)
	Expenditure	0.316	0.269	0.245
Cumulative deficit over last 3 years: £0.033m	**Deficit or (surplus)**	**0.017**	**0.017**	**(0.001)**
Total trading activity	Turnover	(6.984)	(6.717)	(6.465)
	Expenditure	7.687	7.594	7.569
Cumulative deficit over last 3 years: £2.684m	**Deficit**	**0.703**	**0.877**	**1.104**

Note 26. Pooled Budgets

The Council has five pooled arrangements with the South Tyneside Clinical Commissioning Group (CCG) under Section 75 of the NHS Act 2006. Pooled funds enable health bodies and local authorities to work collaboratively to address specific health issues. The five projects are as follows:

- The Better Care Fund providing partnership working across a range of health related issues affecting both parties.
- A joint equipment store that enables the Council and the CCG to provide an integrated equipment service, which operates in line with Department of Health guidance, on a borough wide basis.
- An arrangement whereby the Council can commission nursing and continuing care on behalf of the CCG.
- An arrangement whereby the Council can commission after-care services, provided under Section 117 of the 1983 Mental Health Act, on behalf of the CCG.
- An arrangement whereby learning disability resources across both the Council and CCG are closely integrated with a model developed to deliver efficiencies.

The Council is the lead body for these budgets and the gross costs, together with the income from the CCG, are fully reflected in the adult social care services line of the Comprehensive Income and Expenditure Statement. Details of the income and expenditure are shown in the table on the next page.

2018/19 Council share of net cost £m		2019/20 Pooled budgets net cost £m	2019/20 NHS partners income to the Council £m	2019/20 Council share of net cost £m
16.162	Better Care Fund	23.460	(4.603)	18.857
15.612	Learning disabilities	25.401	(7.037)	18.364
0.690	Joint equipment store	1.191	(0.596)	0.595
-	Nursing care and continuing care	16.609	(16.609)	-
4.123	Section 117 mental health	10.132	(5.066)	5.066
36.587	**Total**	**76.793**	**(33.911)**	**42.882**

Note 27. Members' Allowances

Included within the other business and resources services line on the Comprehensive Income and Expenditure Statement are all remuneration payments to Members payable by the Council.

2018/19 £m		2019/20 £m
0.816	Members' allowances	0.749
0.035	Other Members' expenses	0.047
0.851	**Total Members' allowances paid**	**0.796**

Note 28. Council, Schools and Statutory Officers' Remuneration

Employee Remuneration over £0.050m

The number of employees whose remuneration, excluding employer's pension contribution, was £0.050m or more is disclosed, in bands of £0.005m, in the table below. It includes staff whose redundancy payments have resulted in a total payment in excess of £0.050m for the year (inclusive of basic remuneration). These are noted in the column "leavers in year".

2018/19					2019/20			
Council and Statutory	Community School based	Total	Leavers accounted for in year	Remuneration bands	Council and Statutory	Community School based	Total	Leavers accounted for in year
21	21	42	-	£50,000 - £54,999	29	32	61	4
16	25	41	1	£55,000 - £59,999	19	23	42	4
10	11	21	1	£60,000 - £64,999	4	16	20	3
8	7	15	1	£65,000 - £69,999	5	7	12	-
-	5	5	-	£70,000 - £74,999	3	7	10	2
1	5	6	-	£75,000 - £79,999	4	7	11	2
1	3	4	-	£80,000 - £84,999	2	5	7	2
-	1	1	-	£85,000 - £89,999	1	1	2	-
-	1	1	-	£90,000 - £94,999	-	3	3	2
-	-	-	-	£95,000 - £99,999	-	1	1	1
1	-	1	-	£125,000 - £129,999	1	-	1	-
-	-	-	-	£160,000 - £165,999	-	1	1	1
58	**79**	**137**	**3**		**68**	**103**	**171**	**21**

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The Council has continued to revise its structure to ensure that it is shaped to deliver for the future, and as part of this plan, continued with its early retirement and voluntary redundancy programme during the year.

Senior Officer Remuneration

The table on the previous page excludes senior officer remuneration which is shown in the table below:

Post title		Salary and allowances	Compensation for loss of office	Pension contribution	Total remuneration
		£	£	£	£
Officers over £150,000					
Chief Executive - M Swales	2018/19	158,945	-	28,420	187,365
	2019/20	161,920	-	28,920	190,840
Other senior officers					
Corporate Director Children Adults and Health	2018/19	126,214	-	21,327	147,541
	2019/20^	56,552	-	9,086	65,638
	2019/20^	85,202	-	15,108	100,310
Corporate Director Business and Resources	2018/19^	66,830	-	11,870	78,700
	2019/20	119,918	-	21,293	141,211
Corporate Director Regeneration and Environment	2018/19^	103,834	-	18,349	122,183
	2019/20	109,966	-	19,477	129,443
Head of Learning and Early Help	2018/19	89,755	-	15,956	105,711
	2019/20	91,413	-	16,275	107,688
Head of Regeneration	2018/19	82,936	-	14,825	97,761
Head of Children's and Families Social Care	2018/19	95,588	-	17,073	112,661
	2019/20	102,739	-	16,438	119,177
Director of Public Health	2018/19	89,138	-	15,956	105,094
	2019/20	95,592	-	15,654	111,246
Head of Integrated Commissioning	2018/19	89,138	-	15,956	105,094
	2019/20^	50,349	-	9,012	59,361
Head of Pensions	2018/19	89,383	-	14,562	103,945
	2019/20	92,949	-	15,912	108,861
Operations Director	2018/19	109,214	-	19,274	128,488
	2019/20^	37,175	-	6,561	43,736
Head of Marketing and Culture	2018/19	83,308	-	14,825	98,133
	2019/20	85,159	-	15,122	100,281
Head of Legal Services	2018/19	84,100		14,825	98,925
	2019/20^	54,799	75,000	10,081	139,880
Acting Head of Legal Services	2019/20^	36,963	-	6,396	43,359
Finance Director	2018/19^	42,950	-	7,608	50,558
Head of Highways and Transport	2018/19^	20,244	-	3,622	23,866
	2019/20	80,543	-	14,365	94,908
Head of Adults and Integrated Care	2018/19	94,440	-	16,869	111,309
	2019/20	96,123	-	17,206	113,329
Head of Asset Management	2018/19^	32,429	-	5,717	38,146
	2019/20^	33,629	-	5,497	39,126
Head of Corporate and External Affairs	2019/20	84,503	-	15,122	99,625
Head of Development Services	2018/19^	60,827	-	10,762	71,589
Total remuneration 2018/19		**1,519,273**	**-**	**267,796**	**1,787,069**
Total remuneration 2019/20		**1,475,494**	**75,000**	**257,525**	**1,808,019**

^ Denotes not a full year salary

Section 4 – Notes to the Core Financial Statements

Exit Package Cost Disclosure

The numbers of exit packages, including senior officers, with total cost per band are set out in the table below:

2018 /19			2019 /20	
Total exit Packages	Total Paid	Exit package cost band	Total exit Packages	Total Paid
	£m			£m
56	0.416	£1 - £20,000	104	0.857
15	0.403	£20,001 - £40,000	19	0.543
3	0.141	£40,001 - £60,000	6	0.308
2	0.126	£60,001 - £80,000	5	0.353
2	0.181	£80,001 - £100,000	3	0.260
3	0.343	£100,001 - £150,000	1	0.111
81	**1.610**	**Total**	**138**	**2.432**

The exit package costs include payments made to the Local Government Pension Scheme. There were two compulsory redundancies in the year.

Note 29. External Audit Costs

Ernst and Young LLP act as the external auditors for the Council. The following table shows the fees paid for the various services received and chargeable to the Comprehensive Income and Expenditure Statement.

2018/19		2019/20
£m		£m
0.097	Fees with regard to external audit services carried out by the appointed auditor for the year	0.097
0.018	Fees for the certification of grant claims and returns for the year	0.019
0.115	**Total fees payable to external auditors**	**0.116**

Note 30. Dedicated Schools Grant

Dedicated Schools Grant (DSG) is provided by the Department for Education to fund the Council's expenditure on schools. Following the formation of academy schools a proportion of DSG funding is top sliced by the Government and paid directly to those in the borough. The remaining DSG allocated to the Council is ring-fenced and can only be applied to meet expenditure properly included in the schools budget. The schools budget includes:

- a restricted range of pupil-related services provided on a Council-wide basis (known as central expenditure) and
- the Individual Schools Budget (ISB), which is divided into a budget share for each school.

Variances in spend compared to allocations for the two elements are required to be accounted for separately. Details of the deployment of DSG receivable for 2019/20 are shown in the table on the next page.

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2019/20	Central expenditure £m	Individual schools budget £m	Total £m
Final DSG before academy recoupment			(123.103)
Academy recoupment and direct funding of high needs places			29.675
Total Council DSG for year			**(93.429)**
Brought forward from previous year			0.532
Agreed initial budgeted distribution in year	**(12.313)**	**(80.583)**	**(92.896)**
In year adjustments	-	(0.314)	(0.314)
Final budget distribution for year	**(12.313)**	**(80.897)**	**(93.210)**
Actual central expenditure	12.313	-	12.313
Actual ISB deployed to schools	-	82.930	82.930
Carry forward to following year	**-**	**2.033**	**2.033**

The equivalent table for the previous year is shown below:

2018/19	Central expenditure £m	Individual schools budget £m	Total £m
Final DSG before academy recoupment			(119.672)
Academy recoupment and direct funding of high needs places			28.365
Total Council DSG for year			**(91.307)**
Brought forward from previous year			(0.877)
Agreed initial budgeted distribution in year	**(11.340)**	**(80.844)**	**(92.184)**
In year adjustments	-	0.051	0.051
Final budget distribution for year	**(11.340)**	**(80.793)**	**(92.133)**
Actual central expenditure	11.340	-	11.340
Actual ISB deployed to schools	-	81.325	81.325
Carry forward to following year	**-**	**0.532**	**0.532**

DSG is credited against the learning and early help line in the Comprehensive Income and Expenditure Statement. The level of overspent DSG has been set aside to be offset against future funding for schools via the movement in earmarked reserves.

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Note 31. Government Grant Income

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

2018/19 £m		2019/20 £m
	Credited to taxation and non-specific grant income	
(33.610)	Non-domestic rates top up grant	(34.377)
(26.890)	Capital grants and contributions	(14.268)
(19.696)	Revenue support grant	(14.666)
(11.126)	Private finance initiative	(11.126)
-	Covid-19 Grant	(6.172)
(2.593)	Small business rate relief grant	(3.443)
(0.572)	Adult social care support grant	(1.564)
(1.637)	New homes bonus grant	(1.496)
(0.808)	Benefits administration grant	(0.732)
(0.833)	Troubled families grant	(0.641)
(0.935)	Other unringfenced grants	(2.241)
(98.700)	**Total**	**(90.726)**
	Credited to services	
(91.256)	Dedicated schools grant	(93.743)
(61.676)	Housing benefit	(53.154)
(13.761)	Public health grant	(13.398)
(7.329)	Pupil premium grant	(7.361)
(7.352)	Better care fund grants	(9.261)
(5.459)	Education and skills funding agency	(2.490)
-	Teachers pensions grant	(1.445)
(1.639)	Free school meals grant	(1.606)
(0.915)	Adult social care winter funding grant	(0.915)
(2.084)	Grants supporting revenue expenditure funded by capital under statute	(0.781)
(0.331)	Teachers pay grant	(0.751)
-	Physical education and sports grant	(0.775)
(0.545)	Partners in practice grant	(1.020)
(2.813)	Other ringfenced grants	(1.787)
(195.160)	**Total**	**(188.487)**
(293.860)	**Total grants**	**(279.213)**

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The following unutilised grants were held as receipts in advance:

31st March 2018 £m		31st March 2019 £m
	Revenue grants	
(0.208)	Education and skills funding agencies	(0.443)
-	Non-domestic rates loss of income grant	(4.038)
-	Other grants	(1.396)
(0.208)	**Total**	**(5.877)**
	Capital grants	
(1.227)	Department for Education schools	(1.723)
(2.428)	Other grants and contributions	(1.955)
(3.655)	**Total**	**(3.678)**

Note 32. Capital Expenditure and Capital Financing

The following table analyses capital expenditure together with the method of financing and the impact on the Council's underlying need to borrow.

2018/19 £m		2019/20 £m
750.583	**Opening capital financing requirement (CFR)**	**768.479**
	Capital investment	
74.993	Additions to property, plant and equipment	52.658
6.495	Loans treated as capital expenditure	5.575
0.910	Additions to other long term assets	0.627
3.412	Revenue expenditure funded from capital under statute	1.093
0.001	Other movements	-
85.811	**Total capital investment**	**59.953**
	Sources of finance	
(2.809)	Capital receipts	(2.185)
(28.974)	Government grants and other contributions	(15.049)
(21.186)	Major repairs reserve	(15.986)
	Sums set aside from revenue	
(0.609)	Direct revenue contributions	(1.709)
(8.481)	Sums set aside from revenue	(7.831)
(3.618)	PFI and finance lease repayments	(3.448)
(2.238)	Capital receipts in lieu of debt set aside	(3.318)
(67.915)	**Total finance and debt set aside**	**(49.526)**
17.896	**Movement in CFR**	**10.427**
768.479	**Closing CFR**	**778.906**
	Explanation of movement in year	
(4.747)	Decrease in underlying need to borrow (supported by Government financial assistance)	(4.599)
22.643	Increase in underlying need to borrow (unsupported by Government financial assistance)	15.026
17.896	**Increase in CFR**	**10.427**

Loans treated as Capital Expenditure

The Council has loaned monies to South Tyneside Housing Ventures Trust Limited and IAMP LLP during the year. This primarily funded the construction of 32 apartments for the over 55s at the site of the former sheltered housing complex of Croftside Court in Whitburn.

Section 4 – Notes to the Core Financial Statements

Revenue Expenditure Funded from Capital under Statute

Certain expenditure incurred by local authorities does not fall within the Code of Practice definition of assets but is classified as expenditure for capital purposes with respect to capital controls. The charges primarily relate to expenditure on third party assets, town centre regeneration and housing grants.

Significant Items of Capital Additions

The most significant capital additions during the year are shown in the following table:

	£m
Highways infrastructure and footpaths	12.734
South Shields 365 regeneration project	7.812
Decent homes	7.579
Other housing improvements	6.638
Asset enhancements	6.162
Recycling and environmental schemes	2.884
Computing and digital facilities	2.051
Social care works	1.902
Fleet vehicle replacement	1.666
Schools and education	1.314
Holborn riverside development	1.298
North Marine park	1.064

Note 33. Leases

Council as Lessee - Finance Leases

The Council holds the lease of Cleadon Park facility which commenced in July 2010 and is 10 years into a 24 year lease. The main use of this facility by the Council is as a library and community centre.

The Council is committed to making the minimum payments under this lease. This represents settlement of the long term liability for the interest in the property and finance costs that will be payable by the Council in future years. The minimum lease payments are made up of the following amounts:

31st March 2019 £m		31st March 2020 £m
	Finance lease liabilities (net present value of minimum lease payments):	
0.058	- current	0.064
1.833	- non-current	1.770
1.928	Finance costs payable in future years	1.731
3.819	**Minimum lease payments**	**3.565**

The repayment of finance lease liabilities and minimum lease payments will be payable over the following periods:

	Finance lease liabilities		Minimum lease payments	
	31st March 2019 £m	31st March 2020 £m	31st March 2019 £m	31st March 2020 £m
Not later than one year	0.058	0.064	0.255	0.255
Later than one year and not later than five years	0.297	0.328	1.019	1.019
Five years to ten years	0.581	0.642	1.273	1.272
Later than ten years	0.955	0.800	1.272	1.019
	1.891	**1.834**	**3.819**	**3.565**

The Council has sub-let part of the space at Cleadon Park to a private nursery.

Council as Lessee - Operating Leases

The Council has operating leases on some of its administrative buildings and a number of plots of land.

The future minimum lease payments due under non-cancellable leases are:

31st March 2019 £m		31st March 2020 £m
0.023	Not later than one year	0.023
0.048	Later than one year and not later than five years	0.048
0.143	Later than five years	0.130
0.214		**0.201**

Council as Lessor - Operating Leases

The Council leases out property and equipment under operating leases primarily for economic development purposes, providing affordable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable leases in future years are:

31st March 2019 £m		31st March 2020 £m
4.509	Not later than one year	4.942
7.846	Later than one year and not later than five years	8.905
15.811	Later than five years	15.213
28.166		**29.060**

Note 34. Related Parties

Disclosure of material related party transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to act freely.

Section 4 – Notes to the Core Financial Statements

Central Government has effective control over the general operations of the Council, as it is responsible for setting the statutory framework within which the Council operates and for providing the majority of funding. The Council applied £279.213m (£293.860m in 2018/19) in support of its revenue spending as detailed in note 31.

Examination of returns completed by Elected Members, together with details included in the register of Members' interests, has identified the following for disclosure:

- One Member is the Chair of the International Advanced Manufacturing Park LLP and was a non-executive director of South Tyneside Foundation Trust during the year; one Member is the Chair, one member is Vice-Chair and two members are part of the board of South Tyneside Homes Limited; one member is Vice-Chair and one member is part of the board of South Tyneside Housing Ventures Trust Limited; one Member is a Director of the board of Centaurea Homes Limited; one Member is chair of NIAL Holdings Limited and another is an alternative member of board of the same company.
- There are seven Members who Chair a school Governing Body (10 in 2018/19). All of these schools receive allocations as part of the individual schools budget funded by Dedicated Schools Grant.
- The Corporate Director Business and Resources is a director of Inspired Spaces Stag (Project Co1) Limited and Inspired Spaces Stag (Project Co2) Limited. The directorship is delivered from the Council's shareholding in these companies. The companies received contractual payments from the Council of £7.795m (£7.727m in 2018/19) in respect of construction and facilities management costs of Jarrow and South Shields Schools which were funded through a PFI arrangement.
- The Corporate Director Regeneration and Environment and the Corporate Director Children's, Adult's and Health are directors of the Centaurea Homes Limited Board.

The transactions included in this disclosure were made with proper consideration of declarations of interest.

There have been no other related party transactions with either Elected Members or Chief Officers other than remuneration for the performance of their duties as detailed in notes 27 and 28 respectively.

The Council administers the Tyne and Wear Pension Fund and charged £0.856m (£0.837m including £0.135m charged by BT South Tyneside Limited in 2018/19) in respect of support services provided. £2.745m (£2.872m in 2018/19) was also recovered in respect of pay costs for pensions staff, associated overheads and other costs. The Council also paid to the Fund £0.069m (£0.063m in 2018/19) in respect of treasury management duties.

The Leader of the Council serves as a member of the North East Combined Authority (NECA) leadership board alongside the three other constituent authorities. During the year the Council paid grants and other sums totalling £0.334m (£0.099m in 2018/19) to the organisation, together with a transport levy of £8.090m (£8.181m in 2018/19) (see note 8). It also recovered £0.050m (£0.018m in 2018/19) for services provided and received funding of £3.836m (£10.646m in 2018/19) towards capital projects.

The Council administers the accounts for NALAHCL on behalf of the LA7 and NIAL and charged £0.036m (£0.046m in 2018/19) in relation to officer time and expenses. The Council received £0.615m income from interest on loan notes with the airport (£0.673m in 2018/19) and £0.516m dividends (nil in 2018/19). It paid nil (£0.020m in 2018/19) towards the expenses incurred by the Company.

South Tyneside Homes Limited buys services back from the Council and was charged £2.855m (£2.329m in 2018/19) in respect of support services provided. A further £5.136m (£5.143m in 2018/19) was recovered in respect of services such as waste disposal, fleet maintenance and profit sharing arrangements. The Council paid a management fee of £11.535m (£12.132m in 2018/19) and a further £32.034m (£32.407m in 2018/19) primarily for the provision of housing repairs, construction services, street cleaning and programme management.

InspiredSpaces STaG Limited is the private sector partner delivering our schools PFI contracts. The Council owns shares to the value of £0.002m (£0.002m in 2018/19) in the various companies established to run the contracts. The Council received nil (£0.064m in 2018/19) in dividends as a result of these shareholdings.

South Tyneside Housing Ventures Trust Limited (STHVTL) was created as a private, limited by guarantee, no share capital company on 26th July 2013. STHVTL provides social housing to residents thereby increasing the number of available affordable homes in the borough. The Council has three nominated representatives on the board of this company and has incorporated it as an associate within the Group Accounts. The Council has agreed to a £65.000m loan arrangement with STHVTL to allow them to create and develop their housing stock. These loans are repayable over a maximum of 49 years and no later than 31st March 2063. During the year additional loans and advances of £4.920m (£4.233m in 2018/19) were made and £0.318m (£0.238m in 2018/19) principal repaid. A further £1.351m (£1.163m in 2018/19) was recovered from the company primarily in relation to interest on the loans.

In partnership with Sunderland Council a limited liability partnership, IAMP LLP, was incorporated in England and Wales on 11th July 2016 in order to develop an international advanced manufacturing park which is located in both boroughs. The purpose of the company is to take land and funds from the Councils and be governed by a board of six council representatives (three from each authority). IAMP LLP has entered into a development agreement with a “partner” to deliver the development. The Company is part funded by the Government with the two councils each taking a 50% share of any other funding required and any assets or liabilities held. Any loans given to the company are secured against the land being purchased. The Council issued £0.655m in new loans during the year (£2.262m in 2018/19). The Council spent £0.655m (£2.262m in 2018/19) on behalf of the company and was reimbursed from the loans issued. As this was an agency arrangement neither the expenditure nor the income are reflected in the Council accounts.

The Council established Centaurea Homes Limited, a wholly owned private limited company, on 30th March 2017 in order to develop high quality housing for sale within the borough to become an important component of the broad range of housing initiatives employed by the Council. It is also intended to repatriate profits generated as a result of business activity back to the Council in order to further invest in frontline services in the borough. Loans are provided to Centaurea by the Council at a market rate in order to provide development finance and working capital. During the year the Council charged £1.060m (nil in 2018/19) to Centaurea Homes Limited, all relating to sale of land and associated costs.

Section 4 – Notes to the Core Financial Statements

The following table shows the related party amounts due to the Council as at the Balance Sheet date.

31st March 2019 £m	Amount due to the Council	31st March 2020 £m
6.537	Central Government	8.612
8.419	Tyne and Wear Pension Fund	0.121
8.321	NIAL	6.683
0.633	South Tyneside Homes Limited	1.042
0.227	InspiredSpaces STaG Limited	0.220
0.960	North East Combined Authority	1.622
4.592	IAMP LLP	5.218
34.454	South Tyneside Housing Ventures Trust Limited	39.074
-	Centaurea Homes Limited	1.060
64.143	**Total**	**63.652**

The following table shows the related party amounts due from the Council as at the Balance Sheet date.

31st March 2019 £m	Amount due from the Council	31st March 2020 £m
(7.499)	Central Government	(6.764)
(2.680)	Tyne and Wear Pension Fund	(1.778)
(3.796)	South Tyneside Homes Limited	(3.743)
(0.001)	IAMP LLP	(0.003)
(0.091)	South Tyneside Housing Ventures Trust Limited	(0.121)
(14.067)	**Total**	**(12.409)**

Note 35. Impairment Losses

Impairment losses and impairment reversals charged to the deficit on the provision of services are consolidated in note 11 which reconciles the movement over the year in property, plant and equipment.

The following table shows net impairment losses made to each cost of service line of the Comprehensive Income and Expenditure Statement:

2018/19 £m		2019/20 £m
0.059	Learning and early help	0.012
2.492	Asset management	2.363
0.021	Corporate finance	0.012
8.020	Local authority housing (HRA)	3.824
10.592	**Cost of services**	**6.211**

During 2019/20 there were a fewer number of planned property demolitions in relation new housing resulting in a reduced charge.

Section 4 – Notes to the Core Financial Statements

Note 36. Contingent Liabilities

The creation of an arm's length management organisation on 1st April 2006 resulted in the transfer of past service pension deficit to South Tyneside Homes Limited. The deficit had accrued as a result of the transfer of former South Tyneside Council employees into the company. For the year ending 31st March 2020, the actuary assessed the liability relating to the defined benefit obligation of the company at £43.600m (£36.690m as amended in 2018/19). In the unlikely event that South Tyneside Homes Limited were wound up, prior to the agreed contract-end date, the Council has guaranteed to fund the past service pension deficit. The Pension Committee agreed the Council's guarantee to fund any pension deficit arising, were the liability to fall due. Therefore, in such a case, there is no possibility of reimbursement from the other member organisations of the Tyne and Wear Pension Fund.

Note 37. Contingent Assets

Litigation by the Council and others in respect of the VAT treatment of off street car parking, with the Council arguing that such supplies should be outside the scope of VAT as a non-business activity was concluded in December 2015 in favour of HMRC. One of the questions posed by the original litigation was whether the overpayment of parking tariff, when the customer received no additional parking time, was consideration for a supply. This question was addressed in another legal case which dealt specifically with this issue where the decision went against HMRC. The Council has therefore employed consultants to submit a claim to be stayed behind ongoing litigation around whether the voluntary disclosure made in the original case includes overpaid parking fees where VAT can be recovered. This litigation allows the Council to potentially reclaim back to the commencement of the original litigation rather than capped at four years as would apply under current legislation. Given the uncertainty around the litigation the Council has not incorporated any potential asset into its closing Balance Sheet.

Note 38. Financial Instruments Risks

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The treasury management function of the Council is undertaken within the Pension Service, because of the greater insight this service has on the economic environment and other market related risks. The Council has fully adopted CIPFA's 2017 Code of Practice on Treasury Management in the Public Services. These practices cover roles and responsibilities and set out the overall operating procedures for treasury management including specific areas such as credit risk, liquidity risk and market risk. The Council has also fully implemented the national investment guidance of the Ministry of Housing, Communities and Local Government, issued in March 2004 and revised in February 2018.

The Council's Treasury Management Strategy sets out the forecast economic environment and the factors which will affect decision making for each forthcoming year. The strategy also sets out a number of Treasury Management Prudential Indicators that the Council has set in order to help control and monitor treasury management performance. When investing cash balances the prime objectives are the security of the capital sum and the liquidity of investments. Certain key elements of the current Treasury Management Strategy are also dealt with in the sections dealing with credit risk and liquidity risk.

Section 4 – Notes to the Core Financial Statements

A copy of the Treasury Management Strategy can be found on the agenda for the Borough Council meeting held on 28th February 2019 which can be accessed via the following link:

https://www.southtyneside.gov.uk/article/60220/Committee-meeting?formid=147785&pageSessionId=9dc95160-a91a-4911-82e2-3df3fb143329&fsn=7d6dc385-480d-4339-a5c3-c10a49619c2d

The Council's activities expose it to a variety of financial risks, the key risks being:

Credit risks	-	The possibility that other parties might fail to pay amounts due to the Council.
Liquidity risks	-	The possibility that the Council might not have the funds available to meet its commitments to make payments.
Market risks	-	The possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

Credit Risk
Credit risk arises from the short term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers.

Credit Risk Management Practices
It is the policy of the Council to place deposits only with a limited number of high quality banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers (Link Asset Services) and to restrict lending to a prudent maximum amount for each institution.

Investments are also made in AAA rated, i.e. highly rated, money market funds. These funds are separate legal entities from the organisations that manage them and have the benefit of diversifying risk. Deposits may also be made with other local authorities and the Debt Management Account Deposit Facility.

As at 31st March 2020 the Council limited direct deposits with institutions to a maximum of £25.000m (£25.000m in 2018/19) for those institutions which are part owned by the Government and £15.000m (£15.000m in 2018/19) for all other institutions on the Council lending list. In addition a £15.000m (£15.000m in 2018/19) limit was applied to investments made into AAA rated money market funds.

The Council does not have any deposits frozen with Icelandic banks.

In relation to customer balances, trade receivables and other sundry debts credit risk impairment has been calculated as follows:

- A separate review for each class of debtor such that housing rents and housing benefits overpaid have all been separately reviewed.
- For debtors raised at 31st March but not yet paid, an impairment review has been made both against individual or client balances and then for debt type.
- Impairment factors taken into consideration include information on the debtor absconding, being in liquidation or declared bankrupt. In the absence of any of these factors the Council considers the age of debt, past experience of recoverability and whether legal proceedings have been initiated.

Section 4 – Notes to the Core Financial Statements

In relation to other financial assets the following factors have been considered:

- Term deposits with institutions on the Council's lending list based on historical experience and current market conditions.
- Other long term loans based on historical experience and financial standing of loanee.

No credit limits were exceeded during the financial year and the Council expects full repayment on the due date of deposits placed with its counterparties.

There has never been any default on the repayment of loans or deposits with banks and other financial institutions nor any of the loans outstanding with South Tyneside Housing Ventures Trust Limited. A default is defined as any failure to fulfil an obligation e.g. failure to make a loan repayment. There has been a loan modification of £0.664m (nil in 2018/19) in respect of the Newcastle Airport loan notes. A further £0.098m (nil in 2018/19) credit loss has been recognised in the accounts.

Amounts Arising from Expected Credit Losses

The changes in the loss allowance for each class of financial asset during the year are as follows:

2018/19 Customers and trade receivables amortised cost Lifetime expected credit loss not credit impaired £m		2019/20 Customers and trade receivables amortised cost Lifetime expected credit loss not credit impaired £m	2019/20 Long term loans at amortised cost Lifetime expected credit loss not credit impaired £m
6.210	**Balance at start of year**	**6.713**	**-**
(1.214)	Amounts written off	(0.895)	-
1.717	Changes in risk parameters	1.182	0.098
6.713	**Balance at end of year**	**7.000**	**0.098**

Credit Risk Exposure

The Council has the following exposure to credit risk at 31st March 2020:

2018/19 Gross carrying amount £m		Credit risk rating	2019/20 Gross carrying amount £m
	Twelve month expected credit loss exposure		
5.022	Australia New Zealand Bank	A+	5.046
5.037	Lloyds Bank	A+	5.000
-	Santander Bank	A+	5.000
47.172	Other cash equivalents and short term investments		45.082
57.231	**Total twelve month expected credit loss exposure**		**60.128**
	Lifetime expected credit loss exposure		
-	Credit risk increased significantly since initial recognition		7.094
8.774	Simplified approach		12.520
8.774	**Total lifetime expected credit loss exposure**		**19.614**
66.005	**Total credit loss exposure**		**79.742**

Collateral
For financial assets totalling £1.582m (£1.017m in 2018/19) in relation to residential care fees there is a charge against clients' property which acts as collateral against the debt. The loan facility agreed with STHVTL allows for the Council to take back property assets from the company in the event of any default in repayment of the loans made. The loan notes for IAMP LLP are secured against the land purchased.

Liquidity Risk
The Council has access to a facility to borrow from the Public Works Loans Board (PWLB). There is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council policy limits the use of market debt to 40% (40% in 2018/19) of the overall debt portfolio. The Council has set limits to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates.

The Council's policy is to ensure that no more than 40% (40% in 2018/19) of loans are due to mature within any financial year and 75% (75% in 2018/19) within any rolling five-year period through a combination of prudent planning of new loans taken out and, where it is economic to do so, making early repayments.

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

31st March 2019 £m	Liabilities outstanding	31st March 2020 £m
(609.985)	Public Works Loans Board	(636.650)
(8.303)	Market debt	(8.301)
-	Other private sector	(0.112)
(7.005)	Other local authorities	(10.003)
-	Local authority pension funds	(14.504)
(366.419)	PFI liabilities	(344.917)
(23.638)	Creditors	(24.933)
(3.819)	Finance lease liabilities	(3.565)
(1,019.169)	**Total**	**(1,042.985)**
(88.570)	Less than one year	(95.238)
(41.888)	Between one and two years	(42.091)
(114.093)	Between two and five years	(104.710)
(160.180)	Between five and ten years	(161.199)
(614.438)	More than ten years	(639.747)
(1,019.169)	**Total**	**(1,042.985)**

Market Risk

Interest rate risk
The Council is exposed to interest rate risk in two different ways: the first being the uncertainty of interest paid or received on variable rate instruments, and the second being the effect of fluctuations in interest rates on the fair value of an instrument.

The current interest rate risk for the Council is summarised as follows:

- Decreases in interest rates will affect interest earned on variable rate investments, potentially reducing income.

- Increases in interest rates will affect interest paid on variable rate borrowings, potentially increasing interest expense.

- The fair value of fixed rate financial assets will fall if interest rates rise. This will not impact on the Balance Sheet for the majority of assets held at amortised cost, but will impact on the disclosure note for fair value. It would have a negative effect on the Balance Sheet for those assets held at fair value.

- The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not impact on the Balance Sheet for the majority of liabilities held at amortised cost, but will impact on the disclosure note for fair value.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the deficit on the provision of services or other comprehensive income and expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the deficit on the provision of services and affect the General Fund balance.

The Council has a number of strategies for managing interest rate risk. Our treasury management policy sets a maximum of 35% (35% in 2018/19) of borrowings in variable rate loans to reduce risk from variable rates. In assessing this rate the Council looks at what it already has on variable rate terms, what the borrowing requirement is each year (as this could potentially be taken on variable rate terms) and what may be a reasonable amount of debt which may be converted from fixed to variable. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is mitigated by the fact that a proportion of Government grant payable on financing costs will normally move with prevailing interest rates and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31st March 2020, for every 1% increase in interest rates, with all other variables held constant, the financial effect would be as shown in the following table:

2018/19 £m	**Interest rate risk**	**2019/20 £m**
0.130	Increase in interest payable on variable rate borrowings	0.080
(0.325)	Increase in interest receivable on variable rate investments	(0.490)
(0.195)	**Impact on Comprehensive Income and Expenditure Statement**	**(0.410)**
(0.160)	**Share of overall impact on the HRA Income and Expenditure Statement**	**(0.152)**
0.639	Increase in fair value of fixed rate investment assets (no impact on Comprehensive Income and Expenditure Statement)	-
(267.637)	Decrease in fair value of fixed rate borrowing liabilities (no impact on Comprehensive Income and Expenditure Statement)	(229.342)

The impact of a 1% fall in interest rates would be as the table on the previous page but with the movements being reversed.

Price Risk

The Council does not generally invest in equity shares but does have shareholdings to the value of £5.930m in Newcastle Airport (£8.877m as amended in 2018/19). The Council has designated these investments as fair value through other comprehensive income and expenditure and consequently is only exposed to losses arising from movements in the prices of the shares at the time those shares are sold. As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure by diversifying its portfolio. Therefore to eliminate any risk the Council has set aside the full fair value of the shares in the financial instruments revaluation reserve.

Note 39. Trust Funds

The Council acts as sole trustee for various legacies left by residents of the borough. These are held either in external investments or as part of internal Council investments as shown in the following table:

2019/20	1st April 2019	Amount received during year	Amount applied during year	31st March 2020	Government stock investments	Invested in Council funds
	£m	£m	£m	£m	£m	£m
Westoe trust	(0.355)	(0.007)	0.002	(0.360)	-	0.360
Marine park trust	(0.179)	(0.002)	-	(0.181)	-	0.181
Other trust funds	(0.154)	(0.001)	0.006	(0.149)	0.021	0.128
Total balances	**(0.688)**	**(0.010)**	**0.008**	**(0.690)**	**0.021**	**0.669**

Income generated by the Westoe Trust is used to benefit schools and promote the education of individuals in South Tyneside in a manner not normally provided by the Council. The Marine Park Trust represents monies received from the sale of property in the park grounds. This must be invested in perpetuity with any interest earned being spent on improvements to the park. There are 22 other trust funds (24 in 2018/19) that are held by the Council primarily to provide financial assistance in the education sector. There were no outstanding liabilities on the Trusts at the Balance Sheet date.

The equivalent movements for the previous year are as follows:

2018/19	1st April 2018	Amount received during year	Amount applied during year	31st March 2019	Government stock investments	Invested in Council funds
	£m	£m	£m	£m	£m	£m
Westoe trust	(0.357)	(0.001)	0.003	(0.355)	-	0.355
Marine park trust	(0.178)	(0.001)	-	(0.179)	-	0.179
Other trust funds	(0.153)	(0.009)	0.008	(0.154)	0.021	0.133
Total balances	**(0.688)**	**(0.011)**	**0.011**	**(0.688)**	**0.021**	**0.667**

Note 40. Pension Schemes Accounted for as Defined Contribution

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Business Services Limited on behalf of the Department for Education.

Public Health employees are members of the NHS Pension Scheme, administered by NHS Business Services Authority on behalf of the Department of Health.

Both schemes provide members with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The schemes are technically defined benefit schemes. However, the schemes are unfunded and both Teachers Pensions and NHS Pensions use a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of these schemes with sufficient reliability for accounting purposes as Central Government do not release the figures. For the purposes of this Statement of Accounts, they are therefore accounted for on the same basis as a defined contribution scheme i.e. pension costs are payable as they arise.

During the year, the Council paid £7.167m to the Teachers' Pensions Agency in respect of teachers' retirement benefits, representing 20.7% of pensionable pay (£5.610m and 16.5% respectively in 2018/19). There were no employee contributions remaining payable at the year-end. The Council sum remaining payable at year end totalled £0.966m (£0.745m in 2018/19).

During the year, the Council paid £0.056m to NHS Pensions in respect of public health employees' retirement benefits, representing 14.4% of pensionable pay (£0.020m and 14.4% in 2018/19). There were no employee contributions remaining payable at the year-end. The Council sum remaining payable at year end totalled £0.009m (£0.009m in 2018/19).

The Council expects to pay out in the region of £8.243m in the year ending 31st March 2021 in respect of these two pension schemes. Information is not available to allow the Council to determine its level of liability in either of these schemes.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of these schemes. These costs are accounted for on a defined benefit basis and detailed in note 41.

Note 41. Defined Benefit Pension Schemes

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

The Council participates in two post-employment schemes:

- The Local Government Pension Scheme (LGPS), the Tyne and Wear Pension Fund (the Fund), administered locally by South Tyneside Council. This is a funded defined benefit plan with benefits earned up to 31st March 2014 being linked to final salary. Benefits after 31st March 2014 are based on a career average revalued earnings scheme. Details of the benefits to be paid for the period covered by this disclosure are set out in the LGPS (Benefits, Membership and Contributions) Regulations 2007 and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 which cover pension earned from 1st April 2014.

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

On 1st October 2008 the Council entered into a ten-year partnership arrangement for the provision of support services and employees were transferred to the company BT South Tyneside Limited (BTSTL). This arrangement ended on 30th September 2018 with staff returning to the Council. For the period of the contract from 1st April 2018 to 30th September 2018 the net pension liability for all staff remained with the Council as a result of a risk-sharing agreement between the two parties and contributions made by BTSTL have been added to those paid by the Council in all prior year disclosures.

During the year, the Council made direct payments to the Fund in respect of early retirements (known as "strain on the fund") payable over the next three years. Early retirements result in reduced pension contributions payable to the Fund and earlier payments of benefits. The sum to be paid by the Council in the year was estimated by the actuary to be £0.350m (£0.980m in 2018/19).

The cost of retirement benefits is recognised 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 required to be made against council tax is based on the cash payable in the year so that the real cost of post-employment retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. However whilst there is no direct cost to the council taxpayer in these accounts, increased contributions will be required over the remaining working life of employees, as assessed by the scheme actuary.

The Fund follows a robust risk management process which can be found in note 13 of the Tyne and Wear Pension Fund Accounts (page 152). Assets are not concentrated in any one area and are liquid such that the costs of any large payment can be accommodated. There were no settlements or curtailments during the year.

(a) Local Government Pension Scheme (LGPS) funded benefits

Introduction

The funded nature of the LGPS requires the Council and its employees to pay contributions into the Fund, calculated at a level intended to balance the pension liabilities with investment assets. Any gains and losses are recognised in full immediately through other comprehensive income and expenditure. Information on the framework for calculating contributions to be paid is set out in LGPS Regulations 2013 and the Fund's Funding Strategy Statement. The contributions to be paid until the date of the next actuarial valuation of the Fund is available are set out in the Rates and Adjustment Certificate.

The Employer's regular contributions to the Fund for the year ending 31st March 2021 are estimated at £15.170m. In addition, strain on the fund contributions may be required.

The figures presented in these accounts include estimates for the increase in liabilities arising from recent judgements in respect of McCloud and Sargeant which found that the transitional protection arrangements put in place when the firefighters' and judges pension schemes were reformed were age discriminatory. The liabilities also include an estimate of the additional cost resulting from the Government's decision to extend a scheme to guarantee a minimum pension for all those in the LGPS who will reach state pension age by 5th April 2021.

The main financial assumptions adopted as at 31st March 2020

The last full actuarial valuation of the Council's liabilities took place as at 31st 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 IAS 19 purposes were:

31st March 2019 % per annum		31st March 2020 % per annum
2.40	Discount rate	2.30
2.20	Inflation rate (consumer price index)	2.00
2.20	Rate of increase to pensions in payment	2.00
2.20	Rate of increase to deferred pensions	2.00
2.20	Pension accounts revaluation rate	2.00
3.70	Rate of general increase in salaries	3.50

The main demographic assumptions adopted as at 31st March 2020

The principal assumptions in commutation and retirement mortality rates, which have been based on the recent actual mortality experience of members within the Fund and allowing for expected mortality improvements, are shown in the following table:

31st March 2019	Post retirement mortality	31st March 2020
	Males	
22.2	Future lifetime from age 65 (currently aged 65)	21.8
23.9	Future lifetime from age 65 (currently aged 45)	23.5
	Females	
25.3	Future lifetime from age 65 (currently aged 65)	25.0
27.2	Future lifetime from age 65 (currently aged 45)	26.8
Each member was assumed to exchange 20% of the maximum amount permitted of their pre April 2010 pension entitlements, for additional lump sum. Each member assumed to exchange 75% of the maximum amount permitted of their post March 2010 pension entitlements, for additional lump sum.	**Commutation**	Each member was assumed to exchange 20% of the maximum amount permitted of their pre April 2010 pension entitlements, for additional lump sum. Each member assumed to exchange 75% of the maximum amount permitted of their post March 2010 pension entitlements, for additional lump sum.

Further detail on mortality assumptions can be found in note 25 of the Tyne and Wear Pension Fund Statements (page 168).

Sensitivity Analysis

The results disclosed in this note are sensitive to the assumptions used. The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31st March 2020 is set out in the table on the next page.

In each case, only the assumption mentioned is altered; all other assumptions remain the same. For inflation, for example, it is assumed this will not change the salary inflation figure and will affect pension increases only.

Impact on present value of obligation liability	**+0.1% per annum £m**	**Change**	**-0.1% per annum £m**	**Change**
Adjustment to discount rate	(1,068.670)	-2.0%	(1,112.920)	2.0%
Adjustment to salary increase rate	(1,093.210)	0.2%	(1,087.960)	-0.2%
Adjustment to pension increase rate	(1,110.670)	1.8%	(1,070.900)	-1.8%
	- 1 Year		**+ 1 Year**	
Adjustment to mortality age rating assumption	(1,125.500)	3.2%	(1,056.000)	-3.2%

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

The impact of the same assumptions on the projected service cost chargeable to the Comprehensive Income and Expenditure Statement is given in the following table.

Impact on projected service cost	**+0.1% per annum £m**	**Change**	**-0.1% per annum £m**	**Change**
Adjustment to discount rate	27.380	-3.4%	29.370	3.6%
Adjustment to salary increase rate	28.360	0.0%	28.360	0.0%
Adjustment to pension increase rate	29.370	3.6%	27.380	-3.4%
	- 1 Year		**+ 1 Year**	
Adjustment to mortality age rating assumption	29.430	3.8%	27.300	-3.7%

Asset Allocation

The approximate split of assets for the Fund as a whole is shown in the table on the next page. The assets allocated to the employer in the Fund are notional and the assets are assumed to be invested in line with the investments of the Fund set out in the table on the next page for the purposes of calculating the return to be applied to those notional assets. The Fund is large and largely liquid and as a consequence there will be no significant restriction on realising assets if a large payment is required to be paid (e.g. bulk transfer value payment).

The Council, as administering authority, does not invest in property or assets related to itself. It is possible, however that assets may be invested in shares relating to some of the private sector employers participating in the Fund if it forms part of their balanced investment strategy.

Asset split at 31st March 2019				Asset split at 31st March 2020		
Quoted	**Unquoted**	**Total**		**Quoted**	**Unquoted**	**Total**
58.0%	7.0%	65.0%	Equities	48.0%	6.8%	54.8%
-	8.8%	8.8%	Property	-	9.0%	9.0%
4.1%	-	4.1%	Government bonds	4.1%	-	4.1%
11.7%	-	11.7%	Corporate bonds	15.3%	-	15.3%
2.7%	-	2.7%	Cash	2.3%	-	2.3%
3.5%	4.2%	7.7%	Other investments	8.5%	6.0%	14.5%
80.0%	**20.0%**	**100.0%**	**Total**	**78.2%**	**21.8%**	**100.0%**

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

The duration of the defined benefit obligation liability is 20.3 years (19.0 years in 2018/19). The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows:

Active members	36%
Deferred pensioners	20%
Pensioners	44%

Were an employer to leave the Fund a terminal valuation would be calculated and any liabilities outstanding requested from the employer. Were these liabilities not to be paid then the remaining employers of the Fund, including the Council, would absorb the cost. If a Council was to leave the Fund the Government would delegate the liability to the replacement council or if there is no replacement council to the other councils remaining in the Fund.

(b) Local Government Pension Scheme (LGPS) and Teachers unfunded benefits

Unfunded pension arrangements established by the Council represent termination benefits made on a discretionary basis upon early retirement in respect of members of the LGPS under the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations. They also include costs on the Teachers scheme where no strain on the fund was paid in year. Any gains and losses are recognised in full immediately through other comprehensive income and expenditure.

For the year ending 31st March 2021 the Council expects to pay £2.040m directly to beneficiaries.

The last full actuarial valuation of unfunded LGPS benefits took place as at 31st March 2019. Liabilities have been estimated by the independent qualified actuary on an actuarial basis using the projected unit credit method.

The main financial and demographic assumptions adopted as at 31st March 2020

The principal financial and demographic assumptions for unfunded are the same as for funded.

Section 4 – Notes to the Core Financial Statements

(c) Impact on accounts of both funded and unfunded benefits

The following table reconciles the liabilities to the Balance Sheet:

31st March 2019 Funded £m	31st March 2019 Unfunded £m		31st March 2020 Funded £m	31st March 2020 Unfunded £m
775.010	-	Fair value of assets	740.050	-
(1,113.790)	(25.670)	Present value of funded defined benefit obligation	(1,090.570)	(23.200)
(338.780)	**(25.670)**	**Liability recognised on the Balance Sheet**	**(350.520)**	**(23.200)**

Breakdown of amounts recognised in the deficit on the provision of services and other comprehensive income and expenditure

The following table shows the net impact of benefits in the Comprehensive Income and Expenditure Statement:

2018/19 Funded £m	2018/19 Unfunded £m		2019/20 Funded £m	2019/20 Unfunded £m
		Operating cost		
22.700	-	Current service cost	28.360	-
17.760	-	Past service cost	0.360	-
		Financing cost		
8.340	0.730	Interest on net defined benefit obligation	7.970	0.590
-	1.125	Strain on fund deferred payment	-	-
48.800	**1.855**	**Pension expense recognised**	**36.690**	**0.590**
		Remeasurements in other comprehensive income and expenditure		
(41.670)	-	Return on plan assets in excess of that recognised in net interest	41.660	-
60.320	0.670	Actuarial losses or (gains) on liabilities - financial assumptions	(21.490)	(0.300)
(44.570)	(1.300)	Actuarial gains on liabilities - demographic assumptions	(18.500)	(0.630)
1.850	(1.320)	Actuarial losses or (gains) on liabilities - experience	(13.010)	(0.120)
(24.070)	**(1.950)**	**Total amount recognised in other comprehensive income and expenditure**	**(11.340)**	**(1.050)**
24.730	**(0.095)**	**Total amount recognised**	**25.350**	**(0.460)**

Changes to the present value of defined benefit liability during the accounting year

Funded £m	Unfunded £m		Funded £m	Unfunded £m
(1,053.790)	**(28.880)**	**Opening defined benefit liability**	**(1,113.790)**	**(25.670)**
(22.700)	-	Current service cost	(28.360)	-
(27.080)	(0.730)	Interest expense on defined benefit liability	(26.430)	(0.590)
(4.470)	-	Contributions by participants	(4.720)	-
(60.320)	(0.670)	Actuarial (losses) or gains on liabilities - financial assumptions	21.490	0.300
44.570	1.300	Actuarial gains on liabilities - demographic assumptions	18.500	0.630
(1.850)	1.320	Actuarial (losses) or gains on liabilities - experience	13.010	0.120
29.610	1.990	Net benefits paid out	30.090	2.010
(17.760)	-	Past service cost	(0.360)	-
(1,113.790)	**(25.670)**	**Closing defined benefit liability**	**(1,090.570)**	**(23.200)**

Changes to the fair value of assets during the accounting year

2018/19 Funded £m	2018/19 Unfunded £m		2019/20 Funded £m	2019/20 Unfunded £m
726.580	**-**	**Opening fair value of assets**	**775.010**	**-**
18.740	-	Interest income on assets	18.460	-
41.670	-	Remeasurement gains or (losses) on assets	(41.660)	-
13.160	1.990	Contributions by the employer	13.610	2.010
4.470	-	Contributions by participants	4.720	-
(29.610)	(1.990)	Net benefits paid out	(30.090)	(2.010)
775.010	**-**	**Closing fair value of assets**	**740.050**	**-**

Actual return on assets

2018/19 Funded £m		2019/20 Funded £m
18.740	Interest income on assets	18.460
41.670	Remeasurement gains or (losses) on assets	(41.660)
60.410	**Actual return on assets**	**(23.200)**

Note 42. Accounting Standards Issued not yet Adopted

Due to the impact of Covid-19 the adoption of IFRS 16 Leases has been deferred until 1st April 2021. The new standard will introduce a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- the right to obtain substantially all of the economic benefits from the use of an identified asset; and
- the right to direct the use of that asset.

The main impact of IFRS 16 is on lessee accounting where it removes the distinction between operating and finance leases and requires the Council to recognise a right-of-use asset and a lease liability at the commencement of the lease with the exception of short-term or low value leases. The Council has identified a small number of leases that will need to be recognised however the financial impact on the accounts has not yet been assessed.

Note 43. Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year-end of 31st March 2020. The Council is required by the Accounts and Audit (England) Regulations 2015 to prepare an annual Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the 2019/20 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code') supported by International Financial Reporting Standards (IFRS). The accounting policies as set out in this note have been applied consistently.

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

2. Basis of Preparation

The concept of a going concern assumes that the Council's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which the Council operates. If the Council were in financial difficulty, the prospects are that alternative arrangements might be made by Central Government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. These provisions confirm that, as councils cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.

The end of the financial year 2019/20 saw the beginning of the Covid-19 pandemic. Some Council services have been suspended such as leisure and culture and the financial impact on the Council arising from additional costs and lost income is likely to be significant during 2020/21. The Council has carried out a detailed assessment of the likely impact of the pandemic on its financial position and performance during 2020/21 and beyond. This included consideration of the following:

- Loss of income on a service by service basis, due to temporary closures, reduction in demand, and increased collection losses.
- Additional expenditure on a service by service basis with the provision of new and expanded services in response to the crisis (such as support to the social care market and the creation of the support hub).
- Changes to government policy, e.g. changes to business rate reliefs, guidance on supplier relief, additional funding for local authorities, and additional responsibilities which sit alongside this.
- The impact on the Council's capital programme, e.g. delays caused by government restrictions, and whether there is a need to rephase work for other reasons.
- The impact of all of the above on the Council's cashflow and treasury management, including availability of liquid cash (as at 31st October 2020 the Council had £38.671m in its main bank/deposit accounts).
- The impact on investment returns and availability of external borrowing if required.
- The estimated overall impact on the Council's General Fund and Housing Revenue Account reserves.

There have been a range of financial interventions introduced by Central Government. In March 2020 the Council received £6.172m being its share of local support grant specifically to support local authorities with the additional costs and lost income due to the pandemic. At 31st March 2020 £6.034m was moved into a new earmarked reserve ready for utilisation in 2020/21 when greater financial impact is expected. A second tranche of the local support grant of £4.146m was received in May 2020 and a third tranche of £1.510m awarded in July 2020 bringing the total received to £11.828m. After the carry forward from 2019/20 the Council currently has £11.690m of Local Support Grant funding available in 2020/21.

The net total impact of Covid-19 on the General Fund is currently estimated to be a cost pressure of £2.786m in 2020/21. By way of context, the General Fund balance as at 31st March 2020 was £4.898m and the Council's prudent minimum level of reserves of £3.021m is also held within earmarked reserves.

For these reasons, the Council does not consider that there is material uncertainty in respect of its ability to continue as a going concern for a period of at least 12 months from the date of these statements.

3. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are generally 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. Amounts outstanding at the year-end are accounted for as part of the carrying amount of the relevant long term loans or investments.
- 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 amended and a charge made to revenue for an estimate of the income that might not be collected.

In the preparation of these accounts, the following entry represents an exception to the statements made above:

- **Housing Rents** – the Council operates a 48-week rent year for Council house rents. However, given that 31st March does not always fall at a weekend, there will be years where there are 49 paying weeks. No income accruals have been made for part weeks. 2019/20 was a 49-week rent year. The average weekly rent receipt for the year was £1.162m over 52 weeks (£1.184m in 2018/19).

Section 4 – Notes to the Core Financial Statements

4. 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 or can be accessed 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 Council's cash management.

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

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

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

6. 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.
- Impairments and revaluation losses on assets used by the service where there are no accumulated gains in the revaluation reserve against which the losses can be written off.
- Amortisation of intangible assets attributable to the service.

For the General Fund the Council is not required to raise council tax to fund these charges. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount determined by the Council in accordance with statutory guidance and prudence. The Council has adopted the following policy:

- Debt which was subject to support from the Government via Revenue Support Grant is annuitised over 50 years.
- Unsupported borrowing is repaid in line with the estimated useful life of the additional asset. The useful economic life of an asset is restricted to 50 years except where advised by a suitably qualified officer.
- Unsupported borrowing is repaid over 20 years where an estimated useful life cannot be established i.e. revenue expenditure funded from capital under statute.
- PFI and finance lease liabilities are repaid in line with the remaining useful life of the asset acquired under the PFI contract.

- Assets under construction are not subject to debt repayment.
- Loan repayments are taken in lieu of making charges to revenue in the case of loans to STHVTL.
- Any other factors that allow for a prudent debt set aside will be considered.
- Factors will be reviewed on an annual basis to ensure any set aside continues to be prudent.

Depreciation, impairments, amortisations and revaluation losses are therefore replaced by the contribution 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.

For the HRA there is no set aside in respect of debt. Depreciation on all HRA assets is charged to the Comprehensive Income and Expenditure Statement (CIES) and is met from housing rents.

All impairments and revaluation losses or gains recognised in 2019/20 are subject to ‘material valuation uncertainty’ due to the impact of Covid-19. Further details can be found in section 19.

7. Council Tax and Non-Domestic Rates (NDR)

Billing authorities act as agents, collecting council tax and NDR on behalf of the major preceptors (including Government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and Central Government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the CIES is the Council’s share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council’s General Fund. Therefore, the difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council’s share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments, prepayments and appeals. Where debtor balances for these are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the Collection Fund. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

Section 4 – Notes to the Core Financial Statements

8. Employee Benefits

8a) Benefits Payable during Employment

Short term employee benefits are those due to be settled within twelve months of the year-end. They include such benefits as wages and salaries, paid annual leave, paid sick leave 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 Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the current accounting year. The accrual is charged to the 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.

8b) Termination Benefits

Termination benefits, whether they arise as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy, are charged on an accruals basis to the relevant service line in the CIES when the Council can no longer withdraw the offer of those benefits.

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

8c) Post-Employment Benefits

Employees of the Council are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education.
- The National Health Service (NHS) Pension Scheme, administered by NHS Business Services Authority on behalf of the Department of Health.
- The Local Government Pensions Scheme, administered by the Council on behalf of admitted and scheduled bodies in the Tyne and Wear area.

All schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The schemes are therefore accounted for as if they were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The learning and early help line in the CIES is charged with the employer's contributions payable to teachers' pensions in the year whilst the public health line includes the contributions payable to the NHS scheme.

8d) The Local Government Pension Scheme

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

- The liabilities of the Tyne and Wear Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 2.3% (based on the current rate of return on high quality corporate bonds of equivalent term and currency to the liabilities).
- The assets of Tyne and Wear Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

    - quoted securities – current bid price
    - unquoted securities – professional estimate
    - unitised securities – current bid price
    - property – market value.

- The change in the defined benefit obligation is analysed as follows:

Service cost comprising:

- *Current service cost* – the increase in liabilities as a result of years of service earned this year – allocated in the CIES to the services for which the employees worked.
- *Past service cost* – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the corporate finance service line.
- *Net interest on the defined benefit liability* – i.e. net interest expense for the Council being the change during the period in the net defined benefit obligation that arises from the passage of time charged to the financing and investment income and expenditure line of the CIES. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period – taking into account any changes in the net defined benefit obligation 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 defined benefit obligation – charged to the pensions reserve as other comprehensive income and expenditure.
- *Actuarial gains and losses* –changes in the defined benefit obligation 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.

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 the prior year this includes cash paid by our strategic partner BT South Tyneside Limited in respect of its liabilities prior to 30th September 2018 when the partnership was wound up.

In relation to retirement benefits, statutory provisions require the General Fund to be charged with the amount payable by the Council to the Pension Fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards so as with termination benefits there are appropriations to the pensions reserve to remove notional amounts and replace them with actual accrued payments. The balance that arises on the pensions reserve thereby measures the beneficial impact to the Council of being required to account for retirement benefits on the basis of cash flows rather than as employees earn benefits.

8e) Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff 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. At present the scheme allows for such payments to be made over three financial years from the date at which the employee left the service of the Council.

9. Events after the Reporting Period

Events after the reporting period 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.

- Those 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.

10. Financial instruments

10a) Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.

The following assumptions apply in calculating the fair value of a financial liability:

- For PWLB and market debt, the discount rate is the PWLB premature repayment rate.

- The Council has used interpolation techniques between available rates where the exact maturity period was not available.
- No early repayment or impairment is recognised.
- The Council has calculated fair values for all instruments in the portfolio, but only disclosed those that are materially different from the carrying value.
- The fair value of creditors is taken to be the invoiced or billed amount.

Annual charges to the financing and investment income and expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

10b) 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:

- Amortised cost
- Fair value through profit or loss
- Fair value through other comprehensive income (FVOCI)

The Council's business model is primarily 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).

10c) Financial Assets Measured at Amortised Cost

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

Where loans have been made at less than market rates (soft loans), a loss is recorded in the CIES (debited to the appropriate service line) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the financing and investment income and expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the

Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains and losses that arise on derecognition of an asset are credited or debited to the financing and investment income and expenditure line in the CIES.

10d) Financial Assets Measured at FVOCI

Equity instruments where there are no contractual cashflows are recognised as financial assets measured at FVOCI. Any movement in the valuation of these instruments will not fall as a charge or income to the taxpayer but instead be reversed out in other comprehensive income and expenditure and held in the financial instrument revaluation reserve. Dividends received will be credited to the financing and investment income and expenditure line of the CIES as they arise. Following the sale of these instruments the fair value of the holding and any related balance in the financial instrument revaluation reserve will be released as a gain or loss to the deficit on the provision of services.

10e) Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost or FVOCI, either on a twelve month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets.

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, losses are assessed on the basis of twelve month expected losses. The Council relies on past due information and calculates losses based on lifetime credit losses for all loans more than 30 days past due.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the financing and investment income and expenditure line in the CIES.

A modification loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on derecognition of an asset are credited or debited to the financing and investment income and expenditure line in the CIES.

11. Government Grants and Contributions

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

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as short term creditors or capital grants received in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (ringfenced) or taxation and non-specific grant income (non-ringfenced) in the CIES.

Where capital grants are utilised and credited to the CIES, they are reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the capital adjustment account

12. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council 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 Council.

Minimal expenditure on the development of the Council's website has been capitalised as it is primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost less amortisation. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service lines in the CIES. The useful life of intangibles is assumed to be five years.

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 balances. The amounts are therefore reversed out of balances 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.

13. Heritage Assets

Heritage assets are non-current assets that are held by the Council principally for their contribution to knowledge and culture. This includes collections of art, archaeology, history and natural sciences which are exhibited or stored in local museums or South Shields town hall. The museums where the majority of the Council's heritage assets are exhibited or stored are:

- South Shields Museum and Art Gallery
- Arbeia Roman Fort and Museum, South Shields
- Tyne and Wear Archives (based at the Discovery Museum in Newcastle-upon-Tyne)

Heritage assets are recognised and measured in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed as follows:

13a) Art Collection

Most of the items in the art collection are valued by the Tyne and Wear Archives and Museum's Principal Keeper of Art. Assets within the art collection are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

13b) Archaeology and other Artefacts
The Council does not consider that reliable cost or valuation information can be obtained for the items held in its archaeology and other artefacts collection. This is because of the diverse nature of the assets held and the lack of comparable market values. Consequently the Council does not recognise these assets on the Balance Sheet.

13c) Statues and Sculptures
The Council has a number of sculptures which are held on the Balance Sheet at either cost or insurance valuation. Statues are held on the Balance Sheet at nil valuation. This is because the Council has deemed that the cost of obtaining valuations would outweigh the benefits to the users of the financial statements.

13d) Civic Regalia
The Council holds a collection of civic regalia which is held on the Balance Sheet at its insurance valuation. The collection is valued annually by an external valuer and is deemed to have a high residual value so is not subject to depreciation. Revaluation gains or losses are accounted for in the same way as for property, plant and equipment.

14. Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries and associates, requiring it to prepare group accounts. Non material entities have not been consolidated. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses. The group financial statements within these accounts are prepared in accordance with the Council policies, with the following additions and exceptions:

Intra Group Transactions
All transactions between the Council and its subsidiaries have been eliminated from the statements and notes.

Charges to Income and Expenditure for Non-Current Assets
There are no transactions between the Group CIES and the capital adjustment account in relation to charges for non-current assets held by South Tyneside Homes Limited and IAMP LLP, such that the amounts charged to the account are reflected in the group income and expenditure reserve.

Actuarial Assumptions on Defined Benefit Obligation
Actuarial assumptions used for the group entities can differ from those used for the Council and are prepared under FRS102 principles rather than IAS19.

15. Inventories and Long Term Contracts
Inventories, where material, are included in the Balance Sheet at the lower of cost and net realisable value. The Council operates a home loan equipment centre that provides disabled aids to the community. As the items are recyclable it is possible, due to technological advances and better procurement techniques, that the replacement cost becomes less than their original purchase value. However for administrative purposes the Council has decided to retain cost value as the measurement for this inventory and has estimated that this may have overstated its value by up to £0.050m.

Long term contracts are accounted for on the basis of charging the deficit on the provision of services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

16. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end.

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. Gains and losses on revaluation are posted to the same line however these 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.

17. Joint Operations

Joint operations are arrangements undertaken by the Council in conjunction with other joint operators that involve the use of the assets and resources of those joint operators rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the CIES with the expenditure it incurs and the share of income it earns from the activity of the operation.

18. 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 not 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.

18a) The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the financing and investment income and expenditure line in the CIES).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets (see section 20) with charges to revenue applied as per section 6 of the accounting policies.

Operating Leases

Rentals paid under operating leases are charged to the CIES as an expense of the services benefiting 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).

18b) The Council as Lessor

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the appropriate service lines in the CIES. Credits are made on a straight-line basis over the life of the lease.

19. Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance. In most cases the segment lines as reported do not include any apportionment of overheads.

20. 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 expected to be used during more than one financial year are classified as property, plant and equipment.

20a) Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. 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.

In recognising capital expenditure as acquisition or enhancement of property, plant and equipment the following deminimis levels have been used:

- £400 for housing capital expenditure, reflecting the planned approach to improvements to individual dwellings.
- £2,000 for devolved school spending in line with Government guidelines.
- £2,500 for vehicles procured as part of a planned replacement strategy.
- £10,000 per item elsewhere in the programme.

The Council only recognises components following either a revaluation of the property or significant expenditure on the component.

20b) Measurement and Revaluation

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 Council 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 cashflows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

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

- ***Infrastructure, community assets, assets under construction, vehicles, plant and equipment*** – depreciated historical cost. However plant and machinery that would normally be regarded as an integral part of the building on letting or sale have been included as a component value. These assets are not revalued.
- ***Dwellings*** – current value, determined using the basis of existing use value for social housing. This represents the amount that the Council could be expected to receive from the sale of that asset having regard to the prospect and viability of the continuance of the current occupancy and use.

- ***Surplus assets*** are valued at fair value, estimated at highest and best use from a market participant's perspective.

- In the case of ***operational assets of a specialised nature***, that is those properties rarely, if ever, sold on the open market in their existing use, the valuation method applied is the depreciated replacement cost (DRC) of the property. The DRC basis of valuation requires an estimate of the value of the land in its existing use together with the current gross replacement costs of the building and its external works from which appropriate deductions have been made to reflect age and condition. The Council uses building cost data from the Building Cost Information Service (BCIS) for DRC valuations. This is a database of nationally gathered building costs by asset type and area.
- ***All other assets*** – current value, determined as the amount that would be paid for the asset in its existing use.

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

Assets included in the Balance Sheet at current or fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair 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. Exceptionally, gains might be credited to the CIES where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are charged as revaluation losses and accounted for in the same way as impairment (see 20c).

The revaluation reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the capital adjustment account.

Due to the impact of Covid-19 as at the valuation date less weight can be attached to previous market evidence for comparison purposes, to inform opinions of value. Faced with an unprecedented set of circumstances on which to base a judgement the valuations are reported in these accounts 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 the valuations than would normally be the case.

20c) Impairment

The values of each category of assets and material individual assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Impairment occurs due to economic, functional and environmental obsolescence and other locational factors that might result in the existing property being worth less than its current net book value. 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 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).
- 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 lines in the CIES.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service lines in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

20d) Depreciation

Depreciation is provided for on all property, plant and equipment assets with a determinable finite life by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use. An exception is made for assets without a determinable finite useful life (i.e. freehold land 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:

- ***Dwellings and other buildings*** – straight-line allocation over the remaining useful life of the property as estimated by the valuer. The remaining useful life of dwellings and other buildings is between 1 and 73 years.

- ***Vehicles, plant, furniture and equipment*** - straight-line allocation up to 20 years being the estimated remaining useful economic life.

- ***Community Assets*** – straight-line allocation over 15 to 45 years.

- ***Infrastructure*** – straight-line allocation over 20 to 25 years (sea defences, open spaces and flood works between 35 and 99 years).
- ***Surplus assets*** – follow the same depreciation policy as the asset in its former use.

Where an item of property, plant and equipment has major components whose cost is significant in relation to the total cost of the item and the useful economic life is significantly different from the host asset, the components are depreciated separately. The Council has recognised the internal services and fixtures as the only major component for the majority of assets and this is being depreciated between 1 and 24 years on inception. A small number of assets have specialist equipment whose cost is material to the overall value of the asset and have different useful economic lives e.g. pool equipment at leisure centres or cremators. A further component is recognised for these assets. Componentisation will only be applied where there has been any expenditure in year and/or the asset has been subject to a formal revaluation.

The Council has set the following deminimis levels for componentisation:

- General Fund assets – components are recognised when the property is first valued. If the capital expenditure on a component in the year reaches £0.075m, components are recognised at this point. If the spend is below £0.075m and no components exist on this asset, it is added to the value of the structure.

- Council dwellings – where expenditure on the components is less than £7,800 and no components exist on this asset, this spend is added to the structure. Where the expenditure is over £7,800 components are recognised at cost value. The maximum value of components is limited to £21,000 with any excess recognised as an impairment charge to the CIES.

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.

20e) Disposals of Non-current Assets

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction (but sometimes through an asset transfer) rather than through its continuing use, it is reclassified as an asset held for sale or disposal. 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 CIES. Gains in fair value are recognised only up to the amount of any previously recognised losses in the deficit on provision of services. Depreciation is not charged on assets held for sale.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale but may be subject to impairment. Assets which are expected to be transferred in the next financial year e.g. conversion of schools to academy status are reclassified to current assets.

When an asset is disposed of, decommissioned or transferred out of the Council's control, 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 income and expenditure line in the CIES as part of the gain or loss on disposal. Receipts from disposals and disposal costs (if any) are transferred to the same line (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 are payable to the Government. For right to buy sales of dwellings this equates to approximately 30% net of statutory deductions and allowances; however this is subject to a Government share cap. 100% of all receipts in excess of this cap may be retained by the Council provided they are used to part fund the provision of new social housing. 100% of housing land sale income, net of statutory deductions and allowances, can be retained by the Council provided there is an equivalent amount of expenditure on affordable housing or regeneration. 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 Council's underlying need to borrow. Receipts are appropriated to the reserve from the General Fund balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the capital adjustment account from the General Fund balance in the Movement in Reserves Statement.

21. 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. Where the Council is deemed to control the services that are provided under its PFI schemes, and where ownership of the assets will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under such contracts on its Balance Sheet as part of property, plant and equipment.

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 under PFI are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

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 CIES.
- ***Finance cost*** – an interest charge in respect of PFI liabilities - debited to the financing and investment income and expenditure line in the CIES.
- ***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 CIES.

- ***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).
- ***Lifecycle replacement costs*** – are charged to revenue the year the costs are incurred.

22. Carbon Reduction Scheme

The Carbon Reduction Commitment Energy Efficiency Scheme came to an end last year. As carbon dioxide was emitted (i.e. as energy was used), a liability was recognised. The liability was measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The liability was discharged by surrendering allowances purchased either earlier in the year or at the reporting date. These allowances were shown on the balance sheet as intangible assets valued at cost price. The cost of the liability is recognised and reported in the Council's net cost of services. Any gain or loss from the sale of any surplus allowances together with any impairment of unused allowances is recorded in the other operating income and expenditure line of the CIES.

23. Provisions, Contingent Liabilities and Contingent Assets

23a) Provisions

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

Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Council 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 recognised as a short term debtor but only if it is virtually certain that reimbursement will be received if the Council settles the obligation.

23b) Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. For example, legal claims which are ongoing but have not reached a point where a liability is certain or can be reliably quantified. 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.

23c) Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts.

24. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the deficit on the provision of services in the CIES. The reserve is then transferred back into the General Fund Balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

25. Revenue Expenditure Funded from Capital under Statute

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

26. Accounting for Schools

Academies in the borough are separate legal entities and therefore do not appear in the Council's accounts. Voluntary aided, voluntary controlled and trust schools form part of the individual schools budgets allocated by the Council and funded by dedicated schools grant. These schools are also recognised as entities in their own right but their income and expenditure is fully recorded alongside spending on Council maintained schools due to the funding regime. However as the Council does not control the assets of these schools, other than playing fields they are not included under property, plant and equipment.

27. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from HMRC. VAT recoverable on payments for goods and services is excluded from income.

28. Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset 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 Council 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 Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council'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 Council 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.
- Level 3 – unobservable inputs for the asset or liability.

Section 5 – Housing Revenue Account Income and Expenditure Statement

This 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. Councils 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 in Reserves Statement.

2018/19 £m		**Note**	**2019/20 £m**
	Expenditure		
15.959	Repairs and maintenance		15.462
16.182	Supervision and management		15.963
2.806	Rents, rates, taxes and other charges		2.745
26.135	Depreciation and impairment of non-current assets	6	22.234
(6.033)	Revaluation gains on property, plant and equipment	6	(5.558)
0.046	Debt management costs		0.047
0.680	Movement in the allowance for bad debts		0.529
1.876	Sums directed by the Secretary of State that are expenditure in accordance with the Code	2	0.691
57.651	**Total expenditure**		**52.113**
	Income		
(61.578)	Dwelling rents		(61.608)
(1.195)	Non-dwelling rents		(1.258)
(2.382)	Charges for services and facilities		(2.308)
(1.461)	Contributions towards expenditure		(1.409)
(66.616)	**Total income**		**(66.583)**
(8.965)	**Net cost of HRA services as included in the Comprehensive Income and Expenditure Statement**		**(14.470)**
0.104	HRA services' share of corporate and democratic core		0.106
1.899	HRA share of other amounts included in the Council's cost of services but not allocated to specific services		1.946
(6.962)	**Net expenditure for HRA services**		**(12.418)**
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:		
1.274	Loss on sale of HRA current and non-current assets		0.687
11.232	Interest and investment expenditure	2	10.924
(0.125)	Interest and investment income	2	(0.156)
5.419	**Deficit or (surplus) for the year on HRA services**		**(0.963)**
(4.534)	Adjustments between accounting basis and funding basis under statute	1	1.009
0.885	**Decrease in year on the HRA**		**0.046**
(21.773)	**Balance on the HRA at the end of the previous year**		**(20.888)**
(20.888)	**Balance on the HRA at the end of the current year**		**(20.842)**

Section 5 – Housing Revenue Account Income and Expenditure Statement

Note 1. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the HRA income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being chargeable to the HRA balance.

2018/19 £m		2019/20 £m
	Amounts included in the HRA Income and Expenditure Statement but excluded from the movement on HRA balance for the year	
(8.020)	Impairment of non-current assets	(3.824)
6.033	Revaluation gains on property, plant and equipment	5.558
(18.115)	Depreciation of non-current assets	(18.410)
(1.328)	Revenue expenditure funded from capital under statute	(0.252)
0.055	Capital receipts not related to sale of a non-current asset	0.084
(6.834)	Amounts of non current assets written off on sale or disposal	(7.414)
5.750	Cash sale proceeds from the sale or disposal of non-current assets	6.892
(0.190)	Contribution towards administrative costs of disposal of non-current assets	(0.165)
(22.649)		**(17.531)**
	Items not included in the HRA Income and Expenditure Statement but included in the movement on the HRA balance for the year	
-	Contributions towards funding the capital programme	0.130
18.115	Contribution to major repairs reserve	18.410
18.115		**18.540**
(4.534)	**Net additional amount required by statute to be (credited) or debited to the HRA balance for the year**	**1.009**

Note 2. Cost of Capital Charge

The cost of capital charge is determined by the Secretary of State in accordance with the Item 8 Credit and Item 8 Debit (General) Determination. It is made up of a number of components as follows:

2018/19 £m		2019/20 £m
	Credit items	
(6.033)	Revaluation gain adjustments	(5.558)
(8.020)	Impairment and revaluation losses removed	(3.824)
(0.125)	Interest receivable and similar income	(0.156)
(14.178)	**Total item 8 credit**	**(9.538)**
	Debit items	
11.278	Interest payable and similar charges	10.971
18.115	Depreciation	18.410
1.876	Revenue expenditure funded by capital under statute	0.691
6.033	Revaluation gains removed	5.558
8.020	Impairment and revaluation losses adjustments	3.824
45.322	**Total item 8 debit**	**39.454**

Note 3. Housing Stock

The Council was responsible for managing an average of 16,580 dwellings and sheltered units during the year (16,758 in 2018/19). The variations during the year can be seen in the table below:

Opening balance	
Dwellings	15,469
Sheltered units	1,175
Opening balance as at 1st April 2019	**16,644**
Reductions	
Right to buys	(127)
Demolitions	(12)
Non active dwellings	(3)
Additions	
Leased to external organisations	10
Conversions	2
Other additions	2
Net reduction in stock	**(128)**
Closing balance	
Dwellings	15,342
Sheltered units	1,174
Closing balance as at 31st March 2020	**16,516**
Houses	9,666
Bungalows	2,388
Flats and maisonettes	3,288
Sheltered units	1,174
Total housing stock as at 31st March 2020	**16,516**

Note 4. Property, Plant, Equipment, Intangible Assets and Assets Held for Sale

The following table shows the net book value of these assets held by the Housing Revenue Account.

Net book value 31st March 2019 £m		Net book value 31st March 2020 £m
535.213	Council dwellings	526.486
27.930	Other buildings	29.957
7.274	Other land	7.739
2.668	Vehicles, plant and equipment	2.493
11.644	Infrastructure	12.897
2.015	Surplus	2.232
0.393	Assets under construction	0.039
1.179	Assets held for sale	0.882
588.316	**Closing net book value**	**582.725**

All housing assets have been valued in accordance with the requirements of resource accounting for the HRA. Replacement and renewal of building elements and services are encompassed within the valuation of operational dwellings. The value included for equipment covers items such as information technology, security systems, warden call, sheltered accommodation and disabled adaptations.

Note 5. Economic Cost to the Government of providing Council Housing

Council dwellings are included in the Balance Sheet at existing use value for social housing. This valuation basis takes into account the fact that the rents of Council house tenants are set below market rents.

A measure of the economic cost to the Government of providing Council dwellings at less than market rents is given by the difference between vacant possession value and existing use social housing value as shown in the following table.

31st March 2019 £m		31st March 2020 £m
1,216.393	Vacant possession value	1,196.559
(535.213)	Existing use social housing value	(526.486)
681.180	**Economic cost to the Government**	**670.073**

Note 6. Depreciation, Impairment and Revaluations

A breakdown of the movement in depreciation for the year is detailed in the following table:

2019/20	Council dwellings £m	Other land and buildings £m	Vehicles, plant and equipment £m	Infrastructure assets £m	Total property, plant and equipment £m
Balance at 1st April 2019	**(60.773)**	**(6.628)**	**(5.095)**	**(2.079)**	**(74.575)**
Depreciation charges in year	(16.151)	(1.435)	(0.247)	(0.577)	(18.410)
Reclassification of depreciation charges	0.036	-	-	-	0.036
Depreciation charges written out	7.051	0.544	-	-	7.595
Balance at 31st March 2020	**(69.837)**	**(7.519)**	**(5.342)**	**(2.656)**	**(85.354)**

Type of asset	Basis of depreciation
Existing use value social housing dwellings	Useful life for dwellings - straight line depreciation
Existing use value other buildings	40 Year Life - straight line depreciation
Vehicles, plant and equipment	5 Year Life - straight line depreciation
Infrastructure - housing estate roads	25 Year Life - straight line depreciation
Infrastructure - open spaces	36 Year Life - straight line depreciation

Section 5 – Housing Revenue Account Income and Expenditure Statement

The equivalent table for the previous year:

2018/19	Council dwellings £m	Other land and buildings £m	Vehicles, plant and equipment £m	Infrastructure assets £m	Total property, plant and equipment £m
Balance at 1st April 2018	**(53.989)**	**(5.552)**	**(4.815)**	**(1.575)**	**(65.931)**
Depreciation charges in year	(15.974)	(1.357)	(0.280)	(0.504)	(18.115)
Reclassification of depreciation charges	0.052	-	-	-	0.052
Depreciation charges written out	9.138	0.281	-	-	9.419
Balance at 31st March 2019	**(60.773)**	**(6.628)**	**(5.095)**	**(2.079)**	**(74.575)**

Type of asset	**Basis of depreciation**
Existing use value social housing dwellings	Useful life for dwellings - straight line depreciation
Existing use value other property	40 Year Life - straight line depreciation
Vehicles, plant and equipment	5 Year Life - straight line depreciation
Infrastructure - housing estate roads	25 Year Life - straight line depreciation
Infrastructure - open spaces	36 Year Life - straight line depreciation

A breakdown of the impairment charge and revaluation gains charged to the Comprehensive Income and Expenditure Statement is as follows:

2019/20	Council dwellings £m	Other buildings £m	Other Assets £m	Total property, plant and equipment £m
Revaluation gains	(4.422)	(0.836)	(0.300)	(5.558)
Impairment	3.435	0.300	0.089	3.824
Total cost	**(0.987)**	**(0.536)**	**(0.211)**	**(1.734)**

The equivalent table for the previous year:

2018/19	Council dwellings £m	Other buildings £m	Other Assets £m	Total property, plant and equipment £m
Revaluation gains	(5.505)	(0.405)	(0.123)	(6.033)
Impairment	7.127	0.657	0.236	8.020
Total cost	**1.622**	**0.252**	**0.113**	**1.987**

Section 5 – Housing Revenue Account Income and Expenditure Statement

Note 7. Housing Capital Expenditure Summary

The following table summarises housing capital expenditure and the method of financing that expenditure.

Spending 2018/19 £m		Spending 2019/20 £m
	Expenditure	
15.820	Dwellings	12.642
4.898	Other property, plant and equipment	3.222
1.328	Revenue expenditure funded from capital under statute	0.252
22.046	**Total spending**	**16.116**

Funding 2018/19 £m		Funding 2019/20 £m
	Funding source	
(21.186)	Major repairs reserve	(15.986)
-	Revenue contributions	(0.130)
(0.860)	Capital Receipts	-
(22.046)	**Total funding**	**(16.116)**

The revenue expenditure funded from capital under statute represents home loss compensation payments and decoration allowances to tenants.

Note 8. Capital Receipts Summary

The following table shows the sources of capital receipts generated by the Housing Revenue Account.

2018/19 £m		2019/20 £m
(5.746)	House sales	(5.364)
(0.029)	Discount repayments	(0.019)
(0.026)	Freehold reversions	(0.065)
(0.004)	Development agreements and land sales	(1.528)
(5.805)	**Total receipts for the year**	**(6.976)**

Note 9. Rent Arrears

The estimated arrears (excluding external charges) have been calculated utilising the relative proportion of such charges within the gross rent collectable for the year.

2018/19 £m		2019/20 £m
72.991	Gross rent collectable (including water and sewerage charges)	72.975
5.078	Overall arrears at 31st March (including water and sewerage charges)	6.225
6.96%	**Overall arrears as a percentage of gross rent collectable**	**8.53%**
4.588	Rent arrears at 31st March (excluding water and sewerage charges)	5.614
0.374	**Amounts written off during the year**	**0.603**
(3.788)	**Balance Sheet allowance for bad debts**	**(3.730)**

Section 5 – Collection Fund Statement

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities, such as the Council, to maintain a separate fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to precepting authorities and the Government of council tax and non-domestic rates.

2018/19 £m		Note	2019/20 £m
	Income		
(66.709)	Council tax	1	(70.926)
(0.038)	Transfer from General Fund		(0.032)
(66.747)	**Total council tax income**		**(70.958)**
(30.137)	Income collectable from non-domestic ratepayers	2	(31.204)
(1.621)	Contribution towards previous years non-domestic rates deficit		(1.111)
(31.758)	Total non-domestic rates income		(32.315)
(98.505)	**Total income**		**(103.273)**
	Expenditure		
65.021	**Precept payments - council tax**		**68.888**
14.783	Shares of non-domestic rates income payable to preceptors		14.597
14.783	Shares of non-domestic rates income payable as central share to Government		14.597
0.976	Transition protection payments		0.610
0.149	Allowable collection costs for non-domestic rates		0.145
30.691	**Total non-domestic rates expenditure**		**29.949**
0.248	Council tax written off		0.323
0.514	Transfer to council tax bad debt provision		0.496
0.295	Non-domestic rates written off		0.194
0.277	Transfer to non-domestic rates bad debt provision		0.536
1.334	**Total bad and doubtful debts**		**1.549**
1.122	**Contribution towards previous years council tax surplus**		**1.126**
98.168	**Total expenditure**		**101.512**
0.158	**Deficit or (surplus) for the year - council tax**		**(0.125)**
(0.495)	**Surplus for the year - non-domestic rates**		**(1.636)**
(3.762)	Balance brought forward from previous year - council tax		(3.604)
2.329	Balance brought forward from previous year - non-domestic rates		1.834
(1.770)	**Collection Fund balance at 31st March**		**(3.531)**
(0.438)	Surplus relating to other precepting bodies - council tax		(0.445)
0.935	Deficit relating to other precepting bodies - non-domestic rates		0.101
(3.166)	**Surplus relating to South Tyneside Council - council tax**		**(3.284)**
0.899	**Deficit relating to South Tyneside Council - non-domestic rates**		**0.097**
(2.267)	**Surplus relating to South Tyneside Council - total**		**(3.187)**

Section 5 – Collection Fund Statement

Note 1. Council Tax

Council tax income derives from charges raised according to the value of residential properties, which have been classified into eight valuation bands.

Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council 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: 38,619 in 2019/20 (38,296 in 2018/19). Council tax is calculated by multiplying the basic amount of council tax for band D by the proportion for that particular band. In 2019/20 the band D equivalent was £1,783.79 (£1,697.85 in 2018/19).

Council tax bills were based on the following proportions for bands A to H:

Band	Proportion of band D	Number of dwellings (October 2018)
A	6/9ths	45,850
B	7/9ths	10,142
C	8/9ths	8,422
D	9/9ths	4,580
E	11/9ths	1,777
F	13/9ths	712
G	15/9ths	330
H	18/9ths	43
		71,856

Note 2. Non-Domestic Rates Income

The non-domestic rate is organised on a national basis. The Government specifies an amount in the pound, and subject to the effects of transition arrangements, local businesses pay rates calculated by multiplying this sum by the rateable value of their property – the latter being determined by the District Valuer. The national poundage for the year was set at 49.1p for small businesses (48.0p in 2018/19) and 50.4p for all other businesses (49.3p in 2018/19).

The non-domestic rates income, after reliefs and provisions, of £31.204m (£30.137m in 2018/19) was based on a rateable value of £79.652m as at 31st March 2020 (£77.781m in 2018/19).

Section 6 – Group Introduction

Group Accounts

The Council has considered whether it has interests in any subsidiaries, associates or joint ventures. The key assumption in deciding if a group relationship exists relates to whether the Council has control over the organisation or entity either solely or jointly or has significant influence over that organisation. The definition of control must have all of the following:

- Power over the investee, which is described as having existing rights that give the current ability to direct the activities of the investee that significantly affect the investee's returns (such activities are referred to as the 'relevant activities').
- Exposure, or rights, to variable returns from its involvement with the investee.
- Ability to exert power over the investee to affect the amount of the investor's returns.

In addition for joint control there must be a contractually agreed sharing of control of an arrangement and decisions about the relevant activities require the unanimous consent of the parties sharing control. For the Council to be deemed to have significant influence it must consider a number of factors including voting rights, funding arrangements, rights to financial returns and ability to affect decisions.

Entities that are deemed to be controlled by the Council are incorporated in to the Group Accounts as subsidiaries if material. Any joint ventures or where significant influence is applicable have been incorporated as associates.

Using this approach the following interests were identified and if appropriate included within the Group Accounts.

Subsidiary - South Tyneside Homes Limited (STHL)

A wholly owned subsidiary, this Arm's Length Management Organisation (ALMO) was incorporated on 1st April 2006 to manage, maintain and improve the Council's housing stock. The Council is the sole shareholder and will be liable for any accumulated deficits or losses upon the cessation or loss of control of the company hence the decision that the Council has full control.

The net liabilities of the company amount to £41.289m at the year-end (£33.936m as amended in 2018/19). The company made a net loss of £3.983m for the year (£6.904m as amended in 2018/19).

The Council's accounts include a debtor due from STHL of £1.042m (£0.633m in 2018/19) and a creditor due to STHL of £3.743m (£3.796m in 2018/19).

The creation of the ALMO resulted in the transfer of past service pension deficit to STHL. The deficit had accrued as a result of the transfer of former South Tyneside Council employees. The actuary assessed the deficit at the year-end to be £43.600m (£36.690m as amended in 2018/19). In the unlikely event that STHL were wound up, prior to the agreed contract-end date, the Council has guaranteed to fund the past service defined benefit obligation.

Further information on the accounts presented for audit is available from the Head of Corporate Services, Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear, NE33 2RL.

Section 6 – Group Introduction

Associate – South Tyneside Housing Ventures Trust Limited (STHVTL)

STHVTL is a private, limited by guarantee, no share capital company created on 26th July 2013. Its role is to develop and provide social housing to residents of the borough by building on vacant land sold to the company by the Council and purchasing vacant rented properties from the private and public sector. The Board consists of seven individuals, three of which are nominated by the Council whilst the other four are independents who are neither a Council employee or a tenant or leaseholder of the Council. The three Council nominees act in line with the seven principles of the Nolan Committee such that they have agreed to take all decisions solely in the interest STHVTL. The Company is responsible for the maintenance of all assets acquired by them and any future income streams arising from those assets. The council is a major lender to the company and there is a £65.000m (£40.000m in 2018/19) facilities loan agreement in place to allow the company to develop and expand its asset portfolio.

Primarily due to the extent of funding provided the Council does consider it has significant influence over the company and has incorporated it into the Group Accounts as an associate on the basis of 43% being the share of the voting rights of the three Council representatives.

As at the year end the Company owed the Council £39.074m (£34.454m in 2018/19) following loans and other drawdowns advanced. All loans are repayable before 31st March 2063. The Council was due to pay £0.121m (£0.091m in 2018/19) to the company.

The company produced an operating loss of £0.175m for the year (£0.372m in 2018/19) and had net liabilities at year end of £0.884m (£0.710m in 2018/19).

Copies of the Company's accounts can be obtained from the Company Secretary, Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear, NE33 2RL.

Joint Venture - Homes England

In December 2012 the Council entered into a joint venture agreement with Homes England relating to the development of land at Trinity South, South Shields. The joint venture is not an entity in its own right and all payments and receipts will go through the Council and be managed by the regeneration team within the Council. At the end of each financial year any assets and liabilities will be fully reflected in the Council's single entity financial statements. At the end of the development any profits realised and overage will be settled with Homes England.

Joint Venture – IAMP LLP

In partnership with Sunderland Council a new limited liability partnership was incorporated in England and Wales on 11th July 2016 in order to develop the international advanced manufacturing park (IAMP) which is located in both boroughs. The purpose of the company is to take land and funds from the Councils and be governed by a board of six council representatives (three from each authority). IAMP LLP has entered into a development agreement with a "partner" to deliver the development. The Company is part funded by the Government with the two councils each taking a 50% share of any other funding required and any assets or liabilities held. Any loans given to the company are secured against the land being purchased.

Section 6 – Group Introduction

As at the year-end the Company owed the Council £5.218m (£4.592m in 2018/19) following loans issued to cover the cost of land purchases. The Council was due to pay £0.003m (£0.001m in 2018/19) to the company. The company produced an operating loss of £0.577m for the year (profit of £1.556m in 2018/19) and had net assets at year end, excluding Council loans, of £14.992m (£14.260m in 2018/19).

Copies of the Company's accounts can be obtained from Finance Manager, Sunderland City Council, Civic Offices, Sunderland, Tyne and Wear, SR6 7LB.

Other Entities and Arrangements

On 30th March 2017 the Council registered a new subsidiary company Centaurea Homes Limited. The purpose of the company is the buying, developing and selling real estate. As at the balance sheet date the company owed the Council £1.060m (nil in 2018/19). The company represents a subsidiary of the Council but has not been consolidated on the grounds of materiality.

The Council reviewed all of its partnership arrangements it has with the four other Tyne and Wear authorities. It has concluded that in all cases these are joint operations rather than joint ventures as there is no asset sharing arrangements. As such all of the income and expenditure that represents the Council's share of activities in these arrangements is included in the Council's core Financial Statements.

VA and trust schools are funded from DSG that is provided by the Council. For this reason the Council is deemed to have significant influence over the school entities as the funding represents the majority of funds available to the schools. However the Council has no access to the assets of the school and as such its influence is restricted to the day to day operations. As the Council's core Financial Statements already include income and expenditure in relation to these schools use of DSG awarded to them then no further disclosure is required as part of the Group Accounts.

The notes included in the Group Accounts represent those notes required from the Council's own core financial statements, except where there are no material additional amounts or details in relation to group entities. The accounting policies on which the statements and notes have been prepared are the same as the Council other than those described in section 14 of the accounting policies note.

The notes to the group financial statements are presented on pages 115 to 123 and form part of the Statement of Accounts.

Section 6 – Group Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Group, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The deficit on the provision of services line shows the true economic cost of providing the Group's services rather than the statutory amounts required to be charged. The (increase) or decrease lines show the statutory General Fund balances, Housing Revenue Account balance and the Council's share of usable reserves of Group entities before any discretionary transfers to or from earmarked reserves undertaken by the Group.

	Note	General fund balances	Housing revenue account reserves	Capital reserves	Usable reserves of subsidiaries, associates and joint ventures	Total usable reserves	Council unusable reserves	Unusable reserves of subsidiaries	Total Group reserves
		£m	£m	£m	£m	£m	£m	£m	£m
Balance at 31st March 2018 brought forward		**(33.365)**	**(21.773)**	**(7.039)**	**(2.684)**	**(64.861)**	**(83.827)**	**36.771**	**(111.917)**
Movement in reserves during 2018/19									
Total comprehensive (income) and expenditure		21.920	5.419	-	(0.542)	26.797	(50.598)	0.361	(23.440)
Adjustments between accounting basis and funding basis under regulations		(28.301)	(4.534)	3.817	-	(29.018)	29.018	(0.035)	(0.035)
(Increase) or decrease in 2018/19		**(6.381)**	**0.885**	**3.817**	**(0.542)**	**(2.221)**	**(21.580)**	**0.326**	**(23.475)**
Balance at 31st March 2019 carried forward		**(39.746)**	**(20.888)**	**(3.222)**	**(3.226)**	**(67.082)**	**(105.407)**	**37.097**	**(135.392)**
Movement in reserves during 2019/20									
Total comprehensive (income) and expenditure		53.348	(0.963)	-	0.806	53.191	(19.314)	6.910	40.787
Adjustments between accounting basis and funding basis under regulations		(54.218)	1.009	(2.089)	-	(55.298)	55.298	-	-
(Increase) or decrease in 2019/20		**(0.870)**	**0.046**	**(2.089)**	**0.806**	**(2.107)**	**35.984**	**6.910**	**40.787**
Balance at 31st March 2020 carried forward		**(40.616)**	**(20.842)**	**(5.311)**	**(2.420)**	**(69.189)**	**(69.423)**	**44.007**	**(94.605)**

Section 6 – Group Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations. The taxation position is shown in the Movement in Reserves Statement.

2018/19 Gross expenditure £m	2018/19 Gross income £m	2018/19 Net expenditure £m		Note	2019/20 Gross expenditure £m	2019/20 Gross income £m	2019/20 Net expenditure £m
83.128	(47.268)	35.860	Adult social care		91.761	(51.735)	40.026
28.582	(6.391)	22.191	Children and families social care		29.234	(6.430)	22.804
122.838	(107.768)	15.070	Learning and early help		132.613	(112.819)	19.794
14.432	(13.885)	0.547	Public health		14.366	(13.530)	0.836
4.137	(1.623)	2.514	Other children's, adults and health services		6.174	(2.620)	3.554
253.117	**(176.935)**	**76.182**	**Sub total children's, adults and health**		**274.148**	**(187.134)**	**87.014**
28.972	(9.651)	19.321	Asset management		26.370	(8.286)	18.084
19.339	(7.245)	12.094	Area management		20.024	(4.655)	15.369
12.357	(7.890)	4.467	Highways and transport		14.367	(9.725)	4.642
15.245	(14.415)	0.830	Other economic regeneration services		9.295	(6.561)	2.734
75.913	**(39.201)**	**36.712**	**Sub total economic regeneration**		**70.056**	**(29.227)**	**40.829**
103.221	(79.952)	23.269	Corporate finance		74.139	(65.269)	8.870
8.165	(5.181)	2.984	Leisure and libraries		8.934	(5.209)	3.725
4.461	(0.371)	4.090	Digital and ICT services		5.463	(0.431)	5.032
6.214	(1.118)	5.096	Strategy and performance		6.570	(1.118)	5.452
9.605	(3.424)	6.181	Other business and resources services		13.000	(2.994)	10.006
131.666	**(90.046)**	**41.620**	**Sub total business and resources**		**108.106**	**(75.021)**	**33.085**
64.939	**(66.616)**	**(1.677)**	**Local authority housing (HRA)**		**50.612**	**(68.399)**	**(17.787)**
525.635	**(372.798)**	**152.837**	**Cost of services**		**502.922**	**(359.781)**	**143.141**
19.295	(6.717)	12.578	Other operating income and expenditure		47.610	(6.465)	41.145
41.672	(2.461)	39.211	Financing and investment income and expenditure	1	42.201	(3.192)	39.009
-	(171.195)	(171.195)	Taxation and non-specific grant income		-	(166.927)	(166.927)
586.602	**(553.171)**	**33.431**	**Deficit on the provision of services**		**592.733**	**(536.365)**	**56.368**
1.044	(0.832)	0.212	Associates and joint ventures accounted for on an equity basis		7.320	(6.957)	0.363
587.646	**(554.003)**	**33.643**	**Group deficit on the provision of services**		**600.053**	**(543.322)**	**56.731**
			Items that will not be reclassified to the deficit on the provision of services				
		(31.162)	Surplus on revaluation of property, plant and equipment				(19.557)
		(0.083)	(Surplus) or deficit from investments in equity instruments designated as fair value through other comprehensive income				2.947
		6.667	Impairment losses on non-current assets charged to the revaluation reserve				9.686
		(32.540)	Remeasurements of the defined benefit obligation	15			(9.020)
		(57.118)	**Other comprehensive (income) and expenditure**				**(15.944)**
		(23.475)	**Total comprehensive (income) and expenditure**				**40.787**

Section 6 – Group Balance Sheet

This statement shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Group. The net assets of the Group are matched by the reserves. Usable reserves, i.e. those that the Group may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves is those that the Group is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences shown in the “adjustments between accounting basis and funding basis under regulations” line in the Group Movement in Reserves Statement.

31st March 2019 £m		Note	31st March 2020 £m
	Non-current assets		
535.213	Council dwellings	2	526.486
647.046	Other property, plant and equipment	2	630.699
3.412	Heritage assets		3.330
2.300	Investment properties		2.300
1.818	Intangible assets	4	1.462
(0.305)	Long term investments - associates and joint ventures		0.109
8.879	Other long term investments		5.932
41.176	Long term debtors		52.504
1,239.539	**Total non-current assets**		**1,222.822**
	Current assets		
9.390	Short term investments		14.376
6.047	Inventories	5	0.775
42.723	Short term debtors	6	37.004
13.471	Cash and cash equivalents	7	51.341
1.474	Assets held for sale		0.882
73.105	**Total current assets**		**104.378**
	Current liabilities		
(42.639)	Short term creditors	8	(41.798)
(1.060)	Cash and cash equivalents - bank overdraft	7	(0.246)
(43.230)	Short term borrowing		(48.421)
(4.290)	PFI liability due in less than one year		(4.757)
(3.655)	Capital grants receipts in advance		(3.678)
(1.078)	Short term provisions		(1.648)
(95.952)	**Total current liabilities**		**(100.548)**
(22.847)	**Total net current assets**		**3.830**
	Non-current liabilities		
(0.755)	Long term creditors		(0.369)
(1.202)	Long term provisions		(1.890)
(582.063)	Long term borrowing		(621.149)
(94.306)	Long term PFI liability		(89.549)
(401.140)	Liability related to defined benefit obligation	15	(417.320)
(1.834)	Other long term liabilities		(1.770)
(1,081.300)	**Total non-current liabilities**		**(1,132.047)**
135.392	**Total net assets**		**94.605**
	Reserves		
(63.856)	Council usable reserves		(66.769)
(3.226)	Usable reserves of Group entities	3	(2.420)
(68.310)	Unusable reserves	9	(25.416)
(135.392)	**Total reserves**		**(94.605)**

Section 6 – Group Cash Flow Statement

This statement shows how the Group 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 Group are funded by way of taxation and grant income or from the recipients of services provided. Investing activities represent the extent to which cash outflows have been made for resources that are intended to contribute to the Groups 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 Group.

2018/19 £m		Note	2019/20 £m
(33.643)	**Cash and non-cash outflow from the provision of services**		**(56.731)**
129.481	Adjustment to the deficit on the provision of services for non-cash movements	10	130.542
(55.417)	Adjustment for items included in the deficit on the provision of services that are investing and financing activities		(36.828)
40.421	**Net cash flow from operating activities**		**36.983**
(58.479)	Investing activities		(41.450)
16.848	Financing activities		43.151
(1.210)	**Net increase in cash and cash equivalents**		**38.684**
13.621	**Cash and cash equivalents at the start of the year**		**12.411**
12.411	**Cash and cash equivalents at the end of the year**		**51.095**

Section 6 – Notes to the Group Financial Statements

Note 1. Financing and Investment Income and Expenditure

Financing and investment income and expenditure is made up of the following items:

2018/19 £m		2019/20 £m
30.402	Interest payable and similar charges	30.779
1.290	Impairment of financial and non-financial assets	1.982
9.980	Net interest expense of defined benefit liability and interest income on scheme assets	9.440
(2.167)	Interest receivable	(2.446)
(0.064)	Dividends receivable	(0.516)
(0.230)	Income in relation to investment properties	(0.230)
39.211	**Total financing and investment income and expenditure**	**39.009**

Note 2. Property, Plant and Equipment

The following table analyses the movement in property, plant and equipment for the Group for the year.

2019/20	Council dwellings	Other buildings	Other land	Vehicles, plant and equipment	Infrastructure assets	Community assets	Surplus assets	Assets under construction	Total property, plant and equipment	PFI assets included in property, plant and equipment
Cost or valuation	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1st April 2019	**595.987**	**427.209**	**50.408**	**50.069**	**200.236**	**12.595**	**4.203**	**30.233**	**1,370.940**	**119.927**
Additions	12.642	14.554	0.100	4.824	15.525	1.300	0.124	3.589	52.658	-
Revaluation to revaluation reserve	(5.891)	3.055	0.644	-	-	-	-	-	(2.192)	-
Revaluation to Comprehensive Income and Expenditure Statement	4.423	1.541	(0.306)	-	-	-	0.300	-	5.958	-
Impairment to Comprehensive Income and Expenditure Statement	(3.434)	(2.502)	-	(0.010)	(0.173)	-	(0.089)	-	(6.208)	-
Sales and other derecognition	(7.083)	(34.692)	(0.009)	(0.996)	-	-	(0.113)	(0.476)	(43.369)	-
Reclassification of assets	(0.319)	25.150	-	-	-	-	0.016	(25.165)	(0.318)	-
At 31st March 2020	**596.325**	**434.315**	**50.837**	**53.887**	**215.588**	**13.895**	**4.441**	**8.181**	**1,377.469**	**119.927**
Depreciation										
At 1st April 2019	**(60.774)**	**(35.897)**	**-**	**(36.338)**	**(51.622)**	**(4.043)**	**(0.007)**	**-**	**(188.681)**	**(14.596)**
Depreciation to Comprehensive Income and Expenditure Statement	(16.153)	(18.258)	-	(3.830)	(7.440)	(0.602)	(0.009)	-	(46.292)	(4.234)
Depreciation to revaluation reserve	2.185	3.198	-	-	-	-	-	-	5.383	-
Depreciation written out on revaluation	3.694	2.987	-	-	-	-	-		6.681	-
Sales and other derecognition	1.173	0.440	-	0.976	-	-	-	-	2.589	-
Reclassification of assets	0.036	-	-	-	-	-	-	-	0.036	-
At 31st March 2020	**(69.839)**	**(47.530)**	**-**	**(39.192)**	**(59.062)**	**(4.645)**	**(0.016)**	**-**	**(220.284)**	**(18.830)**
Balance Sheet amount at 31st March 2019	**535.213**	**391.312**	**50.408**	**13.731**	**148.614**	**8.552**	**4.196**	**30.233**	**1,182.259**	**105.331**
Balance Sheet amount at 31st March 2020	**526.486**	**386.785**	**50.837**	**14.695**	**156.526**	**9.250**	**4.425**	**8.181**	**1,157.185**	**101.097**

Information on the treatment of depreciation and impairment for South Tyneside Council is included in note 43 to the single entity statements.

The equivalent movements in property, plant and equipment for the previous year are as shown in the table on the next page.

2018/19	Council dwellings	Other buildings	Other land	Vehicles, plant and equipment	Infrastructure assets	Community assets	Surplus assets	Assets under construction	Total property, plant and equipment	PFI assets included in property, plant and equipment
Cost or valuation	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1st April 2018	**587.822**	**414.936**	**51.763**	**44.715**	**182.840**	**12.346**	**2.708**	**9.982**	**1,307.112**	**119.927**
Additions	15.820	12.914	0.058	6.411	17.522	0.249	0.877	21.909	75.760	-
Revaluation to revaluation reserve	2.123	(0.654)	2.351	-	-	-	0.615	-	4.435	-
Revaluation to Comprehensive Income and Expenditure Statement	5.505	1.951	(2.921)	-	-	-	(0.356)	-	4.179	-
Impairment to Comprehensive Income and Expenditure Statement	(7.127)	(3.546)	-	(0.012)	(0.126)	-	(0.344)	-	(11.155)	-
Sales and other derecognition	(7.494)	(0.050)	(0.074)	(1.045)	-	-	(0.167)	-	(8.830)	-
Reclassification of assets	(0.662)	1.658	(0.769)	-	-	-	0.870	(1.658)	(0.561)	-
At 31st March 2019	**595.987**	**427.209**	**50.408**	**50.069**	**200.236**	**12.595**	**4.203**	**30.233**	**1,370.940**	**119.927**
Depreciation										
At 1st April 2018	**(53.990)**	**(30.349)**	**-**	**(33.759)**	**(44.808)**	**(3.571)**	**(0.009)**	**-**	**(166.486)**	**(10.362)**
Depreciation to Comprehensive Income and Expenditure Statement	(15.974)	(17.533)	-	(3.485)	(6.814)	(0.472)	(0.008)	-	(44.286)	(4.234)
Depreciation to revaluation reserve	1.942	1.828	-	-	-	-	0.001	-	3.771	-
Depreciation written out on revaluation	6.106	10.155	-	-	-	-	0.009	-	16.270	-
Sales and other derecognition	1.090	0.002	-	0.906	-	-	-	-	1.998	-
Reclassification of assets	0.052	-	-	-	-	-	-	-	0.052	-
At 31st March 2019	**(60.774)**	**(35.897)**	**-**	**(36.338)**	**(51.622)**	**(4.043)**	**(0.007)**	**-**	**(188.681)**	**(14.596)**
Balance Sheet amount at 31st March 2018	**533.832**	**384.587**	**51.763**	**10.956**	**138.032**	**8.775**	**2.699**	**9.982**	**1,140.626**	**109.565**
Balance Sheet amount at 31st March 2019	**535.213**	**391.312**	**50.408**	**13.731**	**148.614**	**8.552**	**4.196**	**30.233**	**1,182.259**	**105.331**

Note 3. Council Share in Group Entities' Usable Reserves

The following table gives a summary of each group entity's assets and liabilities and the Council's share in each:

	South Tyneside Homes Limited	South Tyneside Homes Venture Trust Limited	IAMP LLP	Total
	100% share	43% share	50% share	
	£m	£m	£m	£m
Reserves as at 1st April 2019	**2.754**	**(0.305)**	**0.777**	**3.226**
Non-current assets	0.060	20.456	1.806	22.322
Current assets	6.663	0.793	11.228	18.684
Short term liabilities	(4.412)	(0.730)	(0.346)	(5.488)
Long term liabilities	-	(20.899)	(12.199)	(33.098)
Reserves as at 31st March 2020	**2.311**	**(0.380)**	**0.489**	**2.420**

The equivalent figures for the previous year are as follows:

	South Tyneside Homes Limited	South Tyneside Homes Venture Trust Limited	IAMP LLP	Total
	100% share	43% share	50% share	
	£m	£m	£m	£m
Reserves as at 1st April 2018	**2.777**	**(0.093)**	**-**	**2.684**
Non-current assets	0.206	18.675	1.805	20.686
Current assets	5.787	0.914	10.782	17.483
Short term liabilities	(3.239)	(1.044)	(0.592)	(4.875)
Long term liabilities	-	(18.850)	(11.218)	(30.068)
Reserves as at 31st March 2019	**2.754**	**(0.305)**	**0.777**	**3.226**

Section 6 – Notes to the Group Financial Statements

Note 4. Intangible Assets

An analysis of Group intangible assets is as follows:

2018/19 Software £m	2018/19 Climate change allowances £m	2018/19 Total £m		2019/20 Software £m	2019/20 Climate change allowances £m	2019/20 Total £m
			Balance at start of year:			
6.873	0.576	7.449	Gross book value	7.667	0.179	7.846
(5.384)	-	(5.384)	Accumulated amortisation	(6.028)	-	(6.028)
1.489	**0.576**	**2.065**	**Net book value at start of year**	**1.639**	**0.179**	**1.818**
0.879	-	0.879	Additions	0.627	-	0.627
(0.075)	(0.397)	(0.472)	Disposals	(0.093)	(0.176)	(0.269)
(0.010)	-	(0.010)	Impairment to Comprehensive Income and Expenditure Statement	-	(0.003)	(0.003)
0.075	-	0.075	Amortisation written out on disposal	0.066	-	0.066
(0.719)	-	(0.719)	Amortisation for the period	(0.777)	-	(0.777)
1.639	**0.179**	**1.818**	**Net book value at end of year**	**1.462**	**-**	**1.462**
			Comprising:			
7.667	0.179	7.846	Gross book value	8.201	-	8.201
(6.028)	-	(6.028)	Accumulated amortisation	(6.739)	-	(6.739)
1.639	**0.179**	**1.818**	**Net book value at end of year**	**1.462**	**-**	**1.462**

Note 5. Inventories

An analysis of Group inventories is as follows:

31st March 2019 £m		31st March 2020 £m
0.619	Council inventories	0.775
5.428	Inventories of Group entities	-
6.047	**Total inventories**	**0.775**

Note 6. Short Term Debtors

An analysis of Group short term debtors, including payments in advance, are shown below:

31st March 2019 £m		31st March 2020 £m
	Amounts falling due in one year	
6.537	Central Government bodies	8.612
3.409	Other local authorities	3.644
1.068	NHS bodies	1.471
5.078	Housing tenants	6.225
12.900	Council tax payers	14.379
0.926	Non-domestic ratepayers	0.982
8.419	Tyne and Wear Pension Fund	0.121
17.342	Other debtors	15.508
55.679	**Total amounts falling due in one year**	**50.942**
	Allowances for bad debts	
(3.788)	Housing tenants	(3.730)
(5.789)	Council tax payers	(6.402)
(0.454)	Non-domestic ratepayers	(0.536)
(2.925)	Other debtors	(3.270)
(12.956)	**Total bad debt allowances**	**(13.938)**
42.723	**Net debtors**	**37.004**

Section 6 – Notes to the Group Financial Statements

Note 7. Cash and Cash Equivalents

Cash and cash equivalents are made up of the following balances:

31st March 2019 £m		31st March 2020 £m
0.105	Cash held by the Group	0.110
2.353	Bank accounts	6.806
11.013	Money market funds	44.425
13.471	**Cash and cash equivalent assets**	**51.341**
(1.060)	Bank overdraft facility	(0.246)
(1.060)	**Cash and cash equivalent liabilities**	**(0.246)**
12.411	**Total cash and cash equivalent**	**51.095**

Note 8. Short Term Creditors

An analysis of Group short term creditors and receipts in advance is shown below:

31st March 2019 Creditors £m	31st March 2019 Receipts in advance £m	31st March 2019 Total £m		31st March 2020 Creditors £m	31st March 2020 Receipts in advance £m	31st March 2020 Total £m
(8.005)	(0.208)	(8.213)	Central Government bodies	(7.608)	(4.534)	(12.142)
(0.500)	(0.020)	(0.520)	Other local authorities	(0.336)	(0.114)	(0.450)
(1.275)	-	(1.275)	NHS bodies	(1.071)	(1.343)	(2.414)
-	(1.399)	(1.399)	Housing tenants	-	(1.790)	(1.790)
-	(1.530)	(1.530)	Council taxpayers	-	(1.504)	(1.504)
(4.024)	-	(4.024)	Group employees	(4.081)	-	(4.081)
(2.568)	-	(2.568)	Tyne and Wear Pension Fund	(2.119)	-	(2.119)
(22.337)	(0.773)	(23.110)	All other creditors	(16.152)	(1.146)	(17.298)
(38.709)	**(3.930)**	**(42.639)**	**Total creditors**	**(31.367)**	**(10.431)**	**(41.798)**

Note 9. Unusable Reserves

The following table lists the unusable reserves of the Group.

31st March 2019 £m		31st March 2020 £m
(204.402)	Revaluation reserve	(205.956)
(257.107)	Capital adjustment account	(229.721)
402.369	Pensions reserve	417.320
(8.877)	Financial instruments revaluation reserve	(5.930)
4.078	Employee benefits adjustment account	4.135
1.987	Financial instruments adjustment account	2.013
(4.091)	Deferred capital receipts reserve	(4.091)
(2.267)	Collection Fund adjustment account	(3.186)
(68.310)	**Total unusable reserves**	**(25.416)**

Section 6 – Notes to the Group Financial Statements

Note 10. Operating Activities

The deficit on the provision of services as reported in the Comprehensive Income and Expenditure Statement includes a number of adjustments that do not relate to the movement in cash. The adjusting items are summarised in the table below.

2018/19 £m		**2019/20 £m**
55.560	Depreciation and impairment	52.581
(4.179)	Revaluation (gains) or losses of property, plant and equipment	(5.958)
0.719	Amortisation of intangibles	0.777
7.559	Increase in creditors	3.276
2.488	Decrease or (increase) in debtors	(0.838)
1.196	Increase in impairment provision for bad debts	1.080
(8.632)	Decrease or (increase) in inventories	(0.156)
40.774	Movement in defined benefit obligation	20.431
27.404	Carrying amount of current and non-current assets sold or scrapped	51.565
0.489	Movements in fair values of soft loans	(0.167)
0.025	Impairment of financial instruments	-
6.078	Other non-cash items charged to the deficit on the provision of services	7.951
129.481	**Adjustment to the deficit on the provision of services for non-cash movements**	**130.542**

Note 11. Officers' Remuneration

The number of employees, including schools based and statutory positions but excluding senior officers, whose remuneration falls into each pay bracket, shown in multiples of £0.005m, and starting at £0.050m is:

	Number of employees	
Group	**2018/19**	**2019/20**
£50,000 - £54,999	44	67
£55,000 - £59,999	43	42
£60,000 - £64,999	23	20
£65,000 - £69,999	17	15
£70,000 - £74,999	6	10
£75,000 - £79,999	6	11
£80,000 - £84,999	4	7
£85,000 - £89,999	2	2
£90,000 - £94,999	1	4
£95,000 - £99,999	-	2
£115,000 - £119,999	1	1
£125,000 - £129,999	1	1
£160,000 - £165,999	-	1
	148	**183**

The numbers of exit packages with total cost per band are set out in the table below:

2018/19			2019/20	
Total exit Packages	Total Paid	Exit package cost band	Total exit Packages	Total Paid
	£m			£m
64	0.488	£1 - £20,000	107	0.881
18	0.493	£20,001 - £40,000	20	0.573
3	0.141	£40,001 - £60,000	6	0.308
2	0.126	£60,001 - £80,000	5	0.353
2	0.181	£80,001 - £100,000	3	0.260
3	0.343	£100,001 - £150,000	1	0.111
92	**1.772**	**Total**	**142**	**2.486**

Note 12. Members' Allowances

Included within the other business and resources services line on the Comprehensive Income and Expenditure Statement are all remuneration payments to Members payable by the Group.

2018/19		2019/20
£m		£m
0.816	Members' allowances	0.755
0.035	Other Members' expenses	0.059
0.851	**Total Members' allowances paid**	**0.814**

Note 13. External Audit Costs

KPMG LLP act as the external auditors for the South Tyneside Homes Limited. The following table outlines the Group spending on external auditors during the year:

2018/19		2019/20
£m		£m
0.116	Fees with regard to external audit services	0.114
0.018	Fees for the certification of grant claims and returns	0.019
0.003	Fees for other services provided by external auditors	0.003
0.137	**Total fees payable to external auditors**	**0.136**

Note 14. Contingent Liabilities

Details of the Council's contingent liabilities can be found in note 36 of the single entity statement. This details a liability in relation to the Council's guarantee of the pension deficit within STHL.

Note 15. Defined Benefit Pension Schemes

Both South Tyneside Council and STHL employees are entitled to join the Tyne and Wear Pension Fund (the Fund), which is administered by South Tyneside Council under the regulations governing the Local Government Pension Scheme, a defined benefit scheme.

Section 6 – Notes to the Group Financial Statements

The disclosures below relate to the funded liabilities within the Tyne and Wear Pension Fund (the "Fund"), which is part of the Local Government Pension Scheme (the "LGPS"). The funded nature of the LGPS requires the Group and its employees to pay contributions into the Fund, calculated at a level intended to balance the defined benefit obligation with investment assets.

The Group recognises gains and losses in full immediately through other comprehensive income and expenditure.

The latest actuarial calculation of the Groups liabilities took place as at 31st March 2019.

Actuarial Assumptions Adopted

The main financial assumptions used by the actuary for STHL in 2019/20, differ from those applied to the Council valuation. The assumptions used for STHL are confirmed in the table below. Note 41 of the Council's core Financial Statements provide the assumptions used by the actuary for the Council.

31st March 2019 % per annum		31st March 2020 % per annum
2.50	Discount rate	2.30
2.10	Inflation rate (consumer price index)	1.90
2.10	Rate of increase to pensions in payment	1.90
2.10	Rate of increase to deferred pensions	1.90
2.20	Rate of general increase in salaries	2.00

The main demographic assumptions used by the actuary are the same for both the Council and STHL.

Assets for STHL are allocated the same as disclosed for the Council in note 41 of the Council's core financial statements. However STHL employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is the same as disclosed for the Council. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31st March 2020.

The following table reconciles the funded status of assets and liabilities to the Group Balance Sheet:

31st March 2019 £m		31st March 2020 £m
910.380	Fair value of assets	871.480
(1,285.850)	Present value of funded defined benefit obligation	(1,265.600)
(375.470)	**Liability recognised on the Balance Sheet**	**(394.120)**

The impact of STHL on the split of the defined benefit obligation at the last full valuation compared to that disclosed by the Council in note 41 of the Council's core financial statements is not considered material.

Section 6 – Notes to the Group Financial Statements

Breakdown of amounts recognised in deficit on the provision of services and other comprehensive income and expenditure

The following table shows the net impact of funded and unfunded benefits in the Comprehensive Income and Expenditure Statement:

2018/19 Funded £m	2018/19 Unfunded £m	Operating cost	2019/20 Funded £m	2019/20 Unfunded £m
27.370	-	Current service cost	33.950	-
21.860	-	Past service cost	0.360	-
		Financing cost		
9.250	0.730	Interest on net defined benefit obligation	8.850	0.590
-	1.125	Strain on fund deferred payment	-	-
58.480	**1.855**	**Pension expense recognised**	**43.160**	**0.590**
		Remeasurements in other comprehensive income and expenditure		
(48.830)	-	Return on plan assets in excess of that recognised in net interest	49.620	-
60.320	0.670	Actuarial losses or (gains) on liabilities - financial assumptions	(21.490)	(0.300)
(44.570)	(1.300)	Actuarial gains on liabilities - demographic assumptions	(18.500)	(0.630)
2.490	(1.320)	Actuarial losses or (gains) on liabilities - experience	(17.600)	(0.120)
(30.590)	**(1.950)**	**Total amount recognised in other comprehensive income and expenditure**	**(7.970)**	**(1.050)**

Changes to the present value of funded defined benefit obligation during the accounting year

The following tables explain the history and movements in the present value of liabilities and the fair value of assets together with the actual return on those assets and how this has been reflected in other comprehensive income and expenditure.

2018/19 £m		2019/20 £m
(1,214.270)	**Opening defined benefit liability**	**(1,285.850)**
(27.370)	Current service cost	(33.950)
(31.230)	Interest expense on defined benefit liability	(30.700)
(5.430)	Contributions by participants	(5.740)
(60.320)	Actuarial (losses) or gains on liabilities - financial assumptions	21.490
44.570	Actuarial gains on liabilities - demographic assumptions	18.500
(2.490)	Actuarial (losses) or gains on liabilities - experience	17.600
32.550	Net benefits paid out	33.410
(21.860)	Past service cost	(0.360)
(1,285.850)	**Closing defined benefit liability**	**(1,265.600)**

Section 6 – Notes to the Group Financial Statements

Changes to the fair value of funded assets during the accounting year

2018/19 £m		2019/20 £m
850.730	**Opening fair value of assets**	**910.380**
21.980	Interest income on assets	21.850
48.830	Remeasurement gains or (losses) on assets	(49.620)
15.960	Contributions by the employer	16.540
5.430	Contributions by participants	5.740
(32.550)	Net benefits paid out	(33.410)
910.380	**Closing fair value of assets**	**871.480**

Actual return on assets

2018/19 £m		2019/20 £m
21.980	Interest income on assets	21.850
48.830	Remeasurement gains or (losses) on assets	(49.620)
70.810	**Actual return on assets**	**(27.770)**

Unfunded Benefits

STHL has no unfunded benefits. Disclosure information relating to unfunded benefits for the Council can be found at note 41 of the core financial statements within this document.

The table below reconciles the defined benefit obligation on the Group Balance sheet between funded and unfunded benefits:

31st March 2019				31st March 2020		
Group funded £m	Council unfunded £m	Group total £m		Group funded £m	Council unfunded £m	Group total £m
910.380	-	910.380	Fair value of assets	871.480	-	871.480
(1,285.850)	(25.670)	(1,311.520)	Present value of liabilities	(1,265.600)	(23.200)	(1,288.800)
(375.470)	**(25.670)**	**(401.140)**	**Defined benefit obligation**	**(394.120)**	**(23.200)**	**(417.320)**

The following table reconciles the interest expense of the defined benefit obligation and interest income on assets as recorded in the Group Comprehensive Income and Expenditure Statement between funded and unfunded benefits:

2018/19 Group funded £m	2018/19 Council unfunded £m	2018/19 Group total £m		2019/20 Group funded £m	2019/20 Council unfunded £m	2019/20 Group total £m
31.230	0.730	31.960	Interest on defined benefit liability	30.700	0.590	31.290
(21.980)	-	(21.980)	Interest income on assets	(21.850)	-	(21.850)
9.250	**0.730**	**9.980**	**Pension interest cost and interest income on pension assets**	**8.850**	**0.590**	**9.440**

Section 7 – Tyne and Wear Pension Fund Statements

1. Introduction

The Tyne and Wear Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by South Tyneside Council. It is a contributory defined benefit scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of South Tyneside Council, four other local authorities within the Tyne and Wear area, scheduled bodies and admitted employers in the Fund. These benefits include retirement pensions, early payment of benefits on medical grounds and the payment of death benefits where death occurs either in service or in retirement. The benefits payable in respect of service from 1st April 2014 are based on career average revalued earnings and the number of years of eligible membership. Pensions are increased each year in line with the Consumer Price Index (CPI).

The Fund is financed by contributions from employees, the Council and all other employers within the Fund, as well as from capital growth and interest and dividends on the Fund's investments. Contributions from active members of the Fund are set in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31st March 2020. Employers pay contributions based on triennial funding valuations carried out by the Fund's actuary. For the financial year 2019/20 these were based on the valuation which took place as at 31st March 2016. A valuation was undertaken as at 31st March 2019 and this has set the employer contribution rates for 2020/21 and the following two years.

As at 31st March 2020, there were 266 employers participating in the Fund, including the five district councils and a range of other organisations that provide a public service within the former Tyne and Wear County Council area. A full list of employers is shown later in this statement. The Fund had 139,312 members, made up of 46,229 active members, 51,401 pensioners and 41,682 deferred members.

Further information may be obtained from the Pension Fund Report and Accounts for 2019/20.

2. Legal Framework

The Fund is governed by the Public Service Pensions Act 2013. It is administered in accordance with regulations made by The Ministry of Housing, Communities and Local Government. These regulations apply nationally to all administering authorities in England and Wales.

Investment Regulations

The framework for investment is set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. These regulations set out the types of investments that can be made, which include company and Government securities, property and unit trusts.

Scheme Regulations from 1st April 2014

The Local Government Pension Scheme Regulations 2013, as amended, describe how rights accrue and how benefits are calculated with effect from 1st April 2014. The regulations also contain the administrative provisions for the Scheme. The Local

Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014, (as amended), set out how membership accrued prior to 1st April 2014 counts towards benefits.

3. Funding Strategy

The Regulations require that an actuarial valuation is carried out every third year to ensure that the Fund is able to meet its liabilities to past and present contributors. The employers' contributions are adjusted following a valuation to ensure that the Fund will have sufficient assets to cover liabilities.

The strategy for the valuation is set out in the Funding Strategy Statement. The latest version may be viewed on the Fund's website at:

http://www.twpf.info/CHttpHandler.ashx?id=11986&p=0 .

The Fund consulted employers and considered their views in the formulation of the strategy.

4. The 2016 Valuation

Rates of contributions paid by the employers during 2019/20 were based on the valuation carried out as at 31st March 2016. The value of the Fund at that date was £6,427m. A copy of the 2016 valuation may be viewed on the Fund's website at:

www.twpf.info/CHttpHandler.ashx?id=32981&p=0.

The certified funding level as at 31st March 2016 was 85%. This represented an improvement from position as at March 2013, which was 81%.

The total rate of employer contribution resulting from the 2016 valuation was 25.2% of pensionable pay, comprised of a future service element of 18.3% and a past service deficiency element of 6.9%. The revised employers' contributions were implemented from April 2017.

5. The 2019 Valuation

The 2019 valuation was completed during the year. As at 31st March 2019 the value of the Fund was £8,788m. On the back of strong investment returns, the certified funding level improved to 106%.

The total rate of employer contributions will be, on average, 19.7% for 2020/21, including a 1.2% allowance for uncertainties around funding as a result of the McCloud case. The total rate of employer contributions fell significantly from the position at the 2016 valuation, due to there not being a deficit at total Fund level.

The new rates, set as part of the 2019 valuation, were implemented from 1st April 2020. A copy of the 2019 valuation, which includes the rates to be paid by individual employers, can be found on the Fund's website at:

http://www.twpf.info/CHttpHandler.ashx?id=43497&p=0.

6. Investment Strategy and Investment Structure

The investment strategy in place at the beginning of 2019/20 was informed by an asset liability review carried out in 2016/17 that was based upon the liabilities assessed through the 2016 valuation.

A new asset liability review was carried out during the 2019/20 financial year, based on the March 2019 liability data. The improvement in the funding level provided the opportunity for the Fund to de-risk the investment strategy. A revised funding strategy was approved by Pensions Committee in September 2019.

The new strategy will result in a reduction of 15% in return seeking growth assets (equities) with this money being invested into return seeking income assets (infrastructure, private debt and property) and also lower risk protection assets (primarily corporate bonds). Approximately 10% was moved out of equities by the end of March 2020. The remainder of the changes will take some time to implement.

Note 11 to the financial statements details the amounts held in each type of investment.

Note 17 details the amount invested by each manager.

7. The Merger of Northumberland County Council Pension Fund into the Tyne and Wear Pension Fund

In 2018 the Fund set up a pension's administration shared service arrangement with Northumberland County Council Pension Fund. This was operated from the offices at South Tyneside Council using the systems and processes of Tyne and Wear Pension Fund.

This shared service operated successfully in 2018/19 and 2019/20. During this period of operation the two funds were in discussion about merging. A significant amount of due diligence was undertaken and in February 2020 the final decisions were taken to progress with the merger.

In March 2020 the Government launched a formal consultation on the merger. On 3rd June 2020 the legal process to confirm merger was completed and merger Regulations came into force. The effective date of the merger was backdated to 1st April 2020, with all asset and liabilities of the Northumberland County Council Pension Fund transferring to the Tyne and Wear Pension Fund as that date. The value of the Northumberland County Council Pension Fund was £1,297.840m as at the 31st March 2020.

The financial statements for Tyne and Wear Pension Fund are for the period to 31st March 2020, the day before the merger became effective and therefore, take no account of the expenditure, income, assets or liabilities of Northumberland County Council Pension Fund as at that date. However, the financial statements for next year, 2020/21, will cover the newly merged and enlarged Fund.

8. Investment Pooling - Criteria and Guidance

In the July 2015 Budget, the Chancellor announced the Government's intention to work with the LGPS administering authorities to ensure that investments were pooled while maintaining overall investment performance.

After considering a number of options the Fund decided to work with eleven other administering authorities of LGPS pension funds and created the Border to Coast Pension Partnership. This is a major strategic collaboration between the partner funds, with the aim of delivering improved performance as well as cost savings over the medium to long term.

In 2017/18 Border to Coast Pensions Partnership Limited (Border to Coast) was established and registered as a company limited by shares, with each of the twelve administering authorities as equal shareholders. The transfer of investments to Border to Coast commenced in July 2018, when three internally managed funds moved some of their assets to Border to Coast. The Tyne and Wear Pension Fund made its first investment with Border to Coast in November 2018.

As at 31st March 2020, assets to the value of £14 billion have been invested through Border to Coast on behalf of the partner funds. Tyne and Wear has approximately £2.5 billion invested in three Border to Coast Authorised Contractual Sub Funds for UK equities, global equities and corporate bonds. Investments have also been made in the private equity and infrastructure programmes through Limited Partnerships structures. A commitment has also been made to a Limited Partnership for Private Debt but no investments have been made by the year-end.

Following the successful merger of Tyne and Wear Pension and Northumberland County Council Pension Fund, the shareholding in Border to Coast has been adjusted to reflect the fact that there are now eleven rather than twelve shareholders, with one vote each. The adjustments to accommodate the changes in share ownership were made in June 2020, after the end of the 2019/20 financial year.

Section 7 – Tyne and Wear Pension Fund Statements

Tyne and Wear Pension Fund
Statement of the Actuary for the year ended 31st March 2020

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Tyne and Wear Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31st March 2019 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Actuarial Position

1. The valuation as at 31st March 2019 showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31st March 2019 (of £8,788.1m) covering 106% of the liabilities allowing, in the case of pre- 1st April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.

2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1st April 2020 was:

- 19.1% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date, (the primary rate).

Plus

- an allowance of 1.2% of pay for McCloud and cost management – see paragraph 9;

Less

- 0.6% of pensionable pay to remove surplus in excess of a funding level of 105% over an amortisation period of 20 years from 1st April 2020 (which together with the allowance above comprises the secondary rate).

3. In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in Aon's report dated 27th March 2020 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

Total contributions payable by all employers over the three years to 31st March 2023 are estimated to be:

Year from 1st April	% of pensionable pay	Additional contribution amount (£m)
2020	18.6%	1.4
2021	18.6%	1.4
2022	18.6%	1.4

The percentage of pensionable pay figure shown in the table on the previous page is lower than the future service (primary) contribution rate as at 31st March 2019 of 19.1% due to the impact of certain employers whose sub-funds are in surplus in excess of 105% of the liabilities paying contributions below the future service rate. Additional monetary contributions are payable for individual employers assessed to have a shortfall despite the overall Fund having a surplus.

4. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate, stepping of contribution increases and individual employers' recovery / amortisation periods as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances.

5. The valuation was carried out using the projected unit actuarial method for most employers and the main financial actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for periods in service (per annum)	
Secure scheduled body employers * Intermediate funding target (strong covenant) Intermediate funding target (standard approach) Ongoing orphan employers	4.30% 4.30% 4.30% 4.30%
Discount rate for periods after leaving service (per annum)	
Secure scheduled body employers * Intermediate funding target (strong covenant) Intermediate funding target (standard approach) Ongoing orphan employers	4.30% 4.03% 3.76% 1.60%
Rate of pay increases	3.60%
Rate of increase to pension accounts	2.10%
Rate of increases in pensions in payment (in excess of guaranteed minimum pension)	2.10%

** The secure scheduled body discount rate was also used for employers whose liabilities will be subsumed after exit by a scheduled body.*

In addition, the discount rate for already orphaned liabilities (i.e. where there is no scheme employer responsible for funding those liabilities and employer has exited the Fund) was 1.3% per annum

The assets were valued at market value.

Further details of the assumptions adopted for the valuation, including the demographic assumptions, are set out in the actuarial valuation report.

6. The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2N mortality tables with appropriate scaling factors applied based on an analysis of the Fund's pensioner mortality experience, and included an allowance for improvements based on the 2018 Continuous Mortality Investigation (CMI)

Core projections model (CMI2018), assuming a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 (for normal health retirements) were:

	Men	Women
Current pensioners aged 65 at the valuation date	21.8	24.9
Future pensioners aged 45 at the valuation date	23.4	26.7

7. The valuation results summarised in paragraphs 1 and 2 are based on the financial position and market levels at the valuation date, 31st March 2019. As such the results do not make allowance for changes which have occurred subsequent to the valuation date, although we comment on changes in market conditions to 31st March 2020 in paragraph 10.

8. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1st April 2020 to 31st March 2023 were signed on 27th March 2020. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31st March 2022 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

9. There are a number of uncertainties regarding the Scheme benefits and hence liabilities:

- **Increases to Guaranteed Minimum Pensions (GMPs):**

  The 2019 valuation allows for the extension of the 'interim solution' for public service schemes to pay full inflationary increases on GMPs for those reaching State Pension Age (SPA) between 6th April 2016 and 5th April 2021. However, the Government is still exploring various options, including conversion of GMPs to Scheme benefits, in order to achieve equalisation for GMPs as required by the High Court judgement in the Lloyds Bank case.

  The results of the 2019 valuation do not allow for the impact of potentially extending this interim solution indefinitely, providing full pension increases on GMPs for members reaching State Pension Age after 5th April 2021 nor for conversion of GMPs to Scheme benefits. Based on approximate calculations, at a whole of fund level, the impact of providing full pension increases on GMPs for those members reaching State Pension Age after 5th April 2021 is an increase in past service liabilities of between 0.1% to 0.2% across the Fund as a whole.

- **Cost Management Process and McCloud judgement:**

  Initial results from the Scheme Advisory Board cost management process indicated that benefit improvements / member contribution reductions equivalent to 0.9% of pay would be required. However, the cost management process was paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) constituted illegal age discrimination. Government confirmed that the judgement would be treated as applying to all public service schemes including the LGPS (where the transitional arrangements were in the form of a final salary underpin) and a consultation on changes to the LGPS is expected in 2020.

The employer contributions certified from 1st April 2020 as part of the 2019 valuation include an allowance of 1.2% of pay in relation to the potential additional costs following the McCloud judgement / cost management process. This was a simplified approach which didn't take account of different employer membership profiles or funding targets and may be more or less than the assessed cost once the LGPS changes have been agreed depending upon the precise nature of the new final salary underpin, the members in scope, and how this affects the cost management process.

10. Since the valuation date, Fund asset returns have fallen short of the assumed return of 4.30% over the year to 31st March 2020, on its own leading to a reduction in the funding level. In addition, reduced expectations of future asset returns and falls in gilt yields have led to a decrease in the discount rates, further reducing funding levels and increasing the primary rate. The actuary, in conjunction with the Administering Authority, will monitor the position on a regular basis and the Administering Authority will take action if it believes necessary.

11. This Statement has been prepared by the actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of the actuarial valuation which was carried out as at 31st March 2019. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon does not accept any responsibility or liability to any party other than our client, South Tyneside Council, the Administering Authority of the Fund, in respect of this Statement.

12. The report on the actuarial valuation as at 31st March 2019 is available on the Fund's website at the following address:

http://www.twpf.info/CHttpHandler.ashx?id=43497&p=0

Aon Hewitt Limited

July 2020

Section 7 – Tyne and Wear Pension Fund Statements

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

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 30. 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 pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and the amount and disposition of the fund's assets and liabilities as at 31 March 2020; and
- have been properly prepared 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 pension fund 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.

Emphasis of matter – Merger with Northumberland Pension Fund

We draw attention to Notes 1 and 30 of the financial statements, which describe the merger of the Fund with the Northumberland Pension Fund effective from 1 April 2020. Our opinion is not modified in respect of this matter.

Emphasis of matter – Valuation of property-related investments

We also draw attention to Notes 3, 4 and 12 of the financial statements, which describe the valuation uncertainty the Fund is facing as a result of Covid-19 in relation to property-related investments. Our opinion is not modified in respect of this matter.

Section 7 – Tyne and Wear Pension Fund Statements

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 Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund'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 Statement of Accounts on pages 124 to 131 and pages 175 to 177, other than the financial statements and our auditor's report thereon. The Chief Finance Officer 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.

Matters on which we report by exception
We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make 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 Chief Finance Officer
As explained more fully in the Statement of Responsibilities for the Accounts set out on page 18, the Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund 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 Chief Finance Officer is responsible for assessing the Pension Fund’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 Pension Fund either intends to cease operations, or has no realistic alternative but to do so.

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.

Use of our report
This report is made solely to the members of South 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 South Tyneside Council and the South Tyneside Council’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Hassan Rohimun (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Manchester
30 November 2020

Section 7 – Tyne and Wear Pension Fund Statements

Fund Account for the year

2018/19 £m		Note	2019/20 £m
	Dealings with members, employers and others directly involved in the Fund		
(254.754)	Contributions	5	(269.516)
(8.387)	Transfers in from other pension funds	6	(43.457)
(263.141)	**Total income**		**(312.973)**
303.449	Benefits payable	7	321.632
8.909	Payments to and on account of leavers	8	25.296
312.358	**Total costs**		**346.928**
49.217	**Net (income)/expenditure from dealings with members**		**33.955**
53.242	Management expenses	9	55.186
102.459	**Net (income)/expenditure including fund management expenses**		**89.141**
	Returns on investments		
(88.112)	Investment income	10	(80.722)
0.340	Taxes on income	10	0.487
(528.261)	(Profit)/losses on disposals of investments and changes in the market value of investments	12	268.499
(616.033)	**Net returns on investments**		**188.264**
(513.574)	**Net (increase)/decrease in the net assets available for benefits during the year**		**277.405**
8,274.488	**Net assets of the Fund at 1st April**		**8,788.062**
8,788.062	**Net assets of the Fund at 31st March**		**8,510.657**

Section 7 – Tyne and Wear Pension Fund Statements

Net Assets Statement as at

31st March 2019 £m		Note	31st March 2020 £m
8,780.625	Investment assets	11	8,478.231
(6.845)	Investment liabilities	11	(4.644)
8,773.780	**Total net investments**		**8,473.587**
22.758	Current assets	14	51.778
(8.476)	Current liabilities	14	(14.708)
8,788.062	**Net assets of the Fund available to fund benefits as at 31st March**		**8,510.657**

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Fund. They do not take account of obligations to pay pensions and benefits that fall due after the year end.

The actuarial present value of promised retirement benefits is disclosed at note 25, which has been compiled under IAS 26 and, as such, is based on different assumptions.

Notes to the Tyne and Wear Pension Fund Financial Statements

1. Basis of Preparation

The financial statements summarise the Fund's transactions for the financial year 2019/20 and its position as at 31st March 2020. The accounts have been prepared following the "*Code of Practice on Local Authority Accounting in the United Kingdom 2019/20"* (the Code), which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. They do not take into account obligations to pay pensions and benefits payable after the end of the financial year.

The accounts are prepared on a going concern basis; that is, on the assumption that the functions of the Pension Fund will continue in operational existence for the foreseeable future from the date that the accounts are authorised for issue, this period being at least twelve months from the approval of these financial statements.

The financial statements are prepared in line with the requirements of the CIPFA Code of Practice on Local Authority Accounting, which outlines that as councils cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting. The Council is established under the Local Government Regulations 2013 as an Administering Authority of the Local Government Pensions Scheme and is therefore a statutory body expected to be a going concern until notification is given that the body will be dissolved and its functions transferred.

Section 7 – Tyne and Wear Pension Fund Statements

The Pension Fund has carried out an assessment on its financial position and performance during 2020/21 and beyond as part of its going concern assessment. This included consideration of the following:

- The Fund had assets of £8.7 billion as at 31st March 2020. £6.2 billion (71%) of this is held in assets which are considered to be liquid and which could be converted to cash if required.
- The Fund has estimated that in 2020/21 it will pay out approximately £350m in benefits and other out goings in the coming twelve months and is forecasting contribution income in the region of £230m. This shortfall in contribution income verses benefits and other expenditure of £120m will be met from other regular investment income, which is estimated to be £140m in 2020/21.
- The merger with Northumberland took place with effect from 1st April 2020. The assessment of a going concern is not impacted by the merger. The newly combined Fund will have assets of around £10.1 billion. The proportion of which are considered to be liquid, rises to around 75%. In terms of cash flow, the combined fund benefits and other outgoings are estimated to rise to around £400m. The forecast contribution income is £270m. This leaves an estimated shortfall of around £130m, which will be met by investment income of £150m per annum.

On the basis of these future cashflows, management does not consider that there is material uncertainty in respect of the Fund’s ability to continue as a going concern for a period of at least 12 months from the date of these statements.

2. Summary of Significant Accounting Policies

The accounts have been prepared on an accruals basis. The exception to this practice is transfer values which are recognised when cash is transferred.

Fund Account – Revenue Recognition

a) Contribution Income

Normal contributions, from both members and employers, are accounted for on an accruals basis in the payroll period to which they relate. The percentage rate payable by the employers is determined by the actuary, whilst the rate payable by employees is set within the LGPS Regulations. Contributions due as at 31st March 2020 have been accrued.

Employer deficit funding contributions are accounted for on the due dates set by the actuary or on receipt if earlier than this date.

Employer strain on the fund and any augmentation contributions are accounted for in the period in which the liability arises. Any amount due in the year but still outstanding at the year-end has been accrued.

b) Transfer Values

Transfer values represent the amounts receivable or payable in respect of members who have either joined or left the Fund during the financial year and have been calculated in accordance with the LGPS Regulations 2013.

Individual transfers either in or out have been accounted for in the period in which they were paid or received.

Transfers in from members wishing to use the proceeds from their additional voluntary contributions to purchase Scheme benefits are accounted for on a receipts basis within Transfers In.

Bulk transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement once the amount has been agreed between the relevant Funds.

c) Investment Income

Interest Income

Interest income is recognised in the Fund Account as it accrues using the effective interest rate of the financial instrument as at the date of acquisition.

Dividend Income

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received at the year-end is disclosed in the Net Assets Statement as a current financial asset.

Distributions from Pooled Funds

Distributions from pooled funds are recognised on the date of issue. Any amount not received at the year-end is disclosed in the Net Assets Statement as a current financial asset.

Property related Income

Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the Fund is recognised on a straight line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the rental income over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

Movement in the Net Market Value of Investments

Changes in the net market value of investments (including investment properties) are recognised as income or expenditure and comprise all realised and unrealised profits or losses during the year.

d) Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Taxation

The Fund is a registered public sector scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Any tax that is irrecoverable is accounted for as a fund expense as it arises.

f) Management Expenses

Section 6.5 of the Code requires a breakdown of pension fund administrative expenses. The Fund discloses its pension fund management expenses in accordance with CIPFA guidance "*Accounting for Local Government Pension Scheme Management Expenses (2016).*"

Administrative Expenses
All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged directly to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Oversight and Governance Costs
All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with oversight and governance are charged directly to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Investment Management Expenses
Investment management expenses payable as at 31st March 2020 have been accrued. Performance related fees, where applicable, have not been accrued at that date as they are not deemed to be earned until the end of the performance period when they are calculated and agreed.

Net Assets Statement

g) Financial Assets

The Funds shareholding in Border to Coast Pension Partnership Limited comprises Class A and class B shares and these are valued at transaction cost. The Class A share is valued at £1 and reflects the ownership stake in the company, whilst the Class B shares represent the Funds contribution to the company's regulatory capital requirement.

All other financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes a party to the purchase of the asset. From this date, any gains and losses arising from changes in the fair value of assets are recognised in the Fund Account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13. For the purposes of disclosing levels of fair value hierarchy, the Fund has used the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

h) Freehold and Leasehold Properties

Properties are shown as valued at the year-end date. The valuers are Fellows of the Royal Institute of Chartered Surveyors employed by Savills. No depreciation is provided on freehold buildings or long leasehold properties, in accordance with The Royal Institute of Chartered Surveyors Valuation Standards 9th Edition.

i) Foreign Currency Transactions

Foreign income received during the year has been converted into Sterling at the exchange rate at the date of transaction. Amounts outstanding at the year-end have been valued at the closing exchange rates at the year-end date.

End of year investment and foreign currency balances have been converted into Sterling at the closing exchange rates at the year-end date.

j) Derivatives

The Fund can use derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. At the year end the Fund did not hold any derivatives.

k) Outstanding Commitments

The Fund has made commitments to investments which are not included in the accounts of the Fund until the monies have been drawn down by the relevant manager. These are shown in note 22.

l) Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits and also includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimal risk of changes in their valuations.

m) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and other relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (note 25).

n) Additional Voluntary Contributions

The Fund provides an additional voluntary contributions (AVCs) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed The Prudential Assurance Company as its current AVC provider. AVCs are paid to The Prudential Assurance Company by employers and are specifically for providing additional benefits for the individual contributors. Each AVC contributor receives an annual statement showing the value of their account and any movements during the year.

In accordance with section 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, AVCs are not included in the accounts but are disclosed only as a note (note 16).

3. Critical Judgements in Applying Accounting Policies

Directly Held Property Valuation

The Fund's UK property, including residential property, is included at a value derived by the valuers based on assumptions made by them in accordance with The Royal Institute of Chartered Surveyors Valuation Standards 9th Edition. The actual valuation of each property will only be known when the Fund sells the property on the open market.

The valuers have included the following statement within their valuation report around risks associated with the value of property, as a result of the lock down caused by the Covid-19 pandemic.

"The outbreak of Novel Coronavirus (Covid-19), declared by the World Health Organisation as a "Global Pandemic" on 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors and at the valuation date we do not consider that we can rely upon previous market evidence to fully inform opinions of value. Indeed the current response to Covid-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuations are therefore reported on the basis of a "material valuation uncertainty" as per VP 3 and VPGA 10 of the RCIS Red Book Global. Consequently, less certain – and a higher degree of caution – should be attached to our valuations than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market, we recommend that the valuation of these properties are kept under frequent review."

Management consider that the valuations are appropriate to be in the financial statements as they are from the Fund's professional property Valuer, who has followed agreed procedures set out by their professional body the RCIS, which consulted with all the major valuation companies before releasing the procedures. All of the major valuation firms have agreed the procedures they have used since the Covid-19 pandemic started. We are seeing a number of the caveats included in the 31st March 2020 valuation being removed in more recent quarterly valuation reports.

The Fund also holds assets in two residential property funds that also contain the caveat regarding the uncertainty in valuations in the real estate market, the Fund considers the valuations received from the Investment Managers concerned are still appropriate and as the total value within these assets is not material to the Fund, management have not considered doing anything different than report the values given by the investment managers.

Unquoted Private Investments

Private investments such as private equity, infrastructure, global property and private debt are valued at fair value in accordance with guidelines issued by the British Venture Capital Association. These are based on the Private Equity Valuation Guidelines in the US and the International Private Equity and Venture Capital Valuation Guidelines outside the US as adopted by the British Venture Capital Association in the UK and the valuation principles of IFRS and US GAAP.
It has been confirmed by the asset managers that they have assessed the value of investments as at 31st March 2020, taking into account the falls in asset values on quoted markets as a result of the lockdown measures and market turmoil following the Covid-19 outbreak across the globe.

As none of these investments are publicly listed, there is some estimation involved in the valuations, the total of which will only be clearly known on the sale of the assets. As a result, there is a risk that current valuations may be under or over stated in the accounts.

Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary. Assumptions underpinning the valuations are agreed with the actuary. This estimate is subject to significant variances based on changes to the underlying assumptions.

4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty and Critical Judgements in Applying Accounting Policies

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

Section 7 – Tyne and Wear Pension Fund Statements

The items in the Net Assets Statement at 31st March 2020 for which there is significant risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Effect if Actual Results differ from Assumptions
Private equity, infrastructure, global property and private debt (note 13 and note 17)	Private equity, infrastructure, global property and private debt are based on valuations provided by the manager of the funds in which the Fund has invested. These are based on the Private Equity Valuation Guidelines in the US and the International Private Equity and Venture Capital Valuation Guidelines outside the US as adopted by the British Venture Capital Association in the UK and the valuation principles of IFRS and US GAAP. These investments are not publicly listed and as such there is a degree of estimation in their valuation. The impact of Covid-19 has been to significantly reduce the number of transactions in the market and therefore the relevant observable data.	The Fund has a total of £664.969m included for private equity, £240.279m for infrastructure, £379.502m for global property and £348.048m for private debt. Based on the sensitivity numbers included in note 12 there is a possibility that this could be under or over stated in the accounts by £85.116m, £20.183m, £36.432m and £24.015m respectively.
Actuarial present value of promised retirement benefits (note 25)	Estimation of the net liability to pay pensions depends on a number of judgements, for example in relation to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and the expected returns on pension fund assets. The Fund employs an actuary to provide expert advice on these assumptions.	The judgements mentioned are all under review. Therefore there is a possibility that the valuation of £11,763.100m in note 25 for the “actuarial present value of the promised retirement benefits” could be under or overstated.
Freehold and leasehold property	Valuation techniques are used to determine the carrying amount of directly held freehold, leasehold and residential property held in residential investment funds. Where possible these valuation techniques are based on observable data, but where this is not possible management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the value of property. The impact of Covid-19 has been to significantly reduce the number of transactions in the market and therefore the relevant observable data.	Based on the sensitivity number included in note 12 there is a possibility that the fair value for directly held property of £431.025m could increase or decrease by £12.068m. Similarly residential property held in funds totalling £63.549m could increase or decrease by £2.987m.

Section 7 – Tyne and Wear Pension Fund Statements

5. Contributions Receivable

2018/19 £m	By category	2019/20 £m
(55.315)	Employees' normal contributions	(58.286)
	Employers' contributions	
(153.577)	Normal contributions	(163.267)
(45.862)	Deficit recovery contributions	(47.963)
(199.439)	**Total employers contributions**	**(211.230)**
(254.754)	**Total contributions**	**(269.516)**

The contributions can be analysed by type of member body as follows:

2018/19 £m	By authority	2019/20 £m
(16.866)	South Tyneside Council (administering authority)	(19.136)
(121.546)	Other metropolitan councils	(129.172)
(72.315)	Other Part 1 scheduled bodies	(76.300)
(13.212)	Part 2 scheduled bodies	(14.809)
(30.815)	Admitted bodies	(30.099)
(254.754)	**Total contributions receivable**	**(269.516)**

6. Transfers In From Other Pension Funds

2018/19 £m	By category	2019/20 £m
-	Group transfers	(22.853)
(8.387)	Individual transfers	(20.604)
(8.387)	**Transfers in from other pension funds**	**(43.457)**

There was no Group Transfers payments received during 2018/19 and 2019/20 but £22.853m has been included regarding a transfer of staff from Northumberland College to the City of Sunderland College in March 2019. The amount of the transfer had been agreed but not paid, as at the 31st March 2020.

A group of employees, deferred and actual pensioners transferred to the Fund from Worcestershire Pension Fund during the 2014/15 financial year in relation to the transfer of Kidderminster College to Newcastle College.

Similarly a group of employees, deferred and actual pensions transferred to the Fund from Cumbria Pension Fund during the 2017/18 financial year in relation to the transfer of Carlisle College to Newcastle College

The Fund at this time does not have a value for the assets to be transferred in relation to Kidderminster and Carlisle Colleges and has therefore not included an amount in the accounts accordingly.

Section 7 – Tyne and Wear Pension Fund Statements

7. Benefits Payable

2018/19 £m	By category	2019/20 £m
254.476	Pensions	268.965
51.310	Commutations and lump sum retirement benefits	56.440
8.025	Lump sum death benefits	6.510
(10.362)	Recharges out	(10.283)
303.449	**Total benefits payable**	**321.632**

The recharges out figure relates to pension enhancements approved by employers over the years, which the Fund pays on the employers' behalf and reclaims on a regular basis from the employers. Details of the payments made can be found in note15.

The payments can be analysed by type of member body as follows:

2018/19 £m	By authority	2019/20 £m
27.637	South Tyneside Council (administering authority)	30.533
181.583	Other metropolitan councils	191.560
50.634	Other Part 1 scheduled bodies	52.502
9.998	Part 2 scheduled bodies	11.335
33.597	Admitted bodies	35.702
303.449	**Total benefits payable**	**321.632**

8. Payment to and on Account of Leavers

2018/19 £m		2019/20 £m
8.285	Individual transfers to other schemes	24.572
0.625	Refunds to members leaving service	0.653
(0.001)	State scheme premiums	0.071
8.909	**Payments to and on account of leavers**	**25.296**

There was no group transfer out of the Fund during 2019/20 or 2018/19.

9. Management Expenses

Office expenses and other overheads have been charged. The table below shows a breakdown of the management expenses incurred during the year:

2018/19 £m		2019/20 £m
2.738	Administrative costs	2.828
48.471	Investment management expenses	50.822
2.033	Oversight and governance costs	1.536
53.242	**Management expenses**	**55.186**

This analysis of the costs of managing the Fund during the period has been prepared in accordance with CIPFA guidance, "*Accounting for Local Government Pension Scheme Management Expenses (2016).*"

The investment management expenses can be further analysed, as follows:

2018/19 £m		2019/20 £m
22.517	Management and custody fees	29.341
11.821	Performance fees	6.954
8.704	Expenses charged within pooled vehicles	11.856
5.429	Transaction costs	2.671
48.471	**Investment management expenses**	**50.822**

While Management Fees include fees relating to the management of the directly held property they do not include costs relating to the property portfolio which under IAS 40 "*Investment Property"* should be capitalised and not expensed.

10. Investment Income

2018/19 £m		2019/20 £m
(41.921)	Income from equities	(24.025)
(1.983)	Income from bonds	(1.434)
(20.571)	Property rents (further breakdown below)	(21.034)
(21.378)	Pooled investments - unit trusts and other managed funds	(32.440)
(1.925)	Interest on cash deposits	(1.463)
(0.334)	Other	(0.326)
(88.112)	**Total before taxes**	**(80.722)**
0.340	Less taxes on income	0.487
(87.772)	**Total investment income**	**(80.235)**

Net Rents from Properties

Net rents from properties can be analysed further, as follows:

2018/19 £m		2019/20 £m
	Property income	
(20.461)	Rental income	(21.580)
(0.110)	Direct operating (income) and expenditure	0.546
(20.571)	**Net Income**	**(21.034)**

Section 7 – Tyne and Wear Pension Fund Statements

11. Investments

31st March 2019 £m		31st March 2020 £m
	Investment assets with Borders to Coast	
369.690	Pooled investment vehicles	2,498.872
	Investment assets without Borders to Coast	
95.835	Bonds	-
1,404.441	Equities	356.712
70.204	Index-linked securities	-
6,324.100	Pooled investment vehicles	5,008.384
408.925	Properties	431.025
1.676	Derivative contracts	-
94.006	Cash deposits	174.055
11.748	Other investment balances	9.183
8,780.625	**Total investment assets**	**8,478.231**
	Investment liabilities	
(2.166)	Derivative contracts	-
(4.679)	Other investment balances	(4.644)
(6.845)	**Total investment liabilities**	**(4.644)**
8,773.780	**Net investment assets**	**8,473.587**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

2019/20	Market value 1st April 2019 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value during the year £m	Market value 31st March 2020 £m
Bonds	95.835	643.927	(746.381)	6.619	-
Equities	1,404.441	304.583	(1,448.228)	95.916	356.712
Index-linked securities	70.204	211.279	(285.906)	4.423	-
Pooled investment vehicles	6,693.790	3,837.180	(2,669.942)	(373.988)	7,487.040
Properties	408.925	29.412	-	(7.312)	431.025
Derivative contracts	(0.490)	4.945	(6.637)	2.182	-
	8,672.705	**5,031.326**	**(5,157.094)**	**(272.160)**	**8,274.777**
Cash deposits	94.006	78.343	(1.874)	3.580	174.055
Other investment balances	7.069	18.258	(0.653)	0.081	24.755
Total investments	**8,773.780**	**5,127.927**	**(5,159.621)**	**(268.499)**	**8,473.587**

2018/19	Market value 1st April 2018 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value during the year £m	Market value 31st March 2019 £m
Bonds	65.921	351.451	(322.855)	1.318	95.835
Equities	1,705.179	820.571	(1,187.313)	66.004	1,404.441
Index-linked securities	80.233	178.430	(193.017)	4.558	70.204
Pooled investment vehicles	5,771.295	880.169	(398.998)	441.324	6,693.790
Properties	366.230	37.389	-	5.306	408.925
Derivative contracts	(1.514)	5.602	(9.933)	5.355	(0.490)
	7,987.344	**2,273.612**	**(2,112.116)**	**523.865**	**8,672.705**
Cash deposits	276.564	-	(187.302)	4.744	94.006
Other investment balances	9.909	2.174	(4.666)	(0.348)	7.069
Total investments	**8,273.817**	**2,275.786**	**(2,304.084)**	**528.261**	**8,773.780**

31st March 2019 £m		31st March 2020 £m
	Fixed interest securities	
83.882	UK public sector	-
11.953	Sterling non-UK public sector	-
95.835	**Total fixed interest securities**	**-**
	Equities	
398.677	UK quoted	10.195
0.833	UK unquoted	0.833
777.118	Overseas quoted	171.408
227.813	Overseas unquoted	174.276
1,404.441	**Total equities**	**356.712**
68.810	UK public sector	-
1.394	Sterling non-UK public sector	-
70.204	**Total UK public sector index-linked securities**	**-**
	Pooled investment vehicles	
0.299	Unit trusts	-
4,253.898	Unitised insurance policies UK	3,000.540
1,754.763	Other managed funds UK	3,753.794
684.830	Other managed funds overseas	732.706
6,693.790	**Total pooled investment vehicles**	**7,487.040**
	Properties	
408.925	Freehold	431.025
408.925	**Total properties**	**431.025**
	Derivative contracts	
(0.492)	Forward foreign currency derivative contracts	-
0.002	Futures	-
(0.490)	**Total forward foreign currency derivative contracts**	**-**
	Cash deposits	
79.753	Sterling	158.096
14.253	Foreign currency	15.959
94.006	**Total cash deposits**	**174.055**
	Other investment balances	
0.839	Outstanding trades	0.276
8.261	Outstanding dividends and tax recoveries	24.394
2.648	Debtors	4.729
(4.679)	Creditors	(4.644)
7.069	**Total other investment balances**	**24.755**
8,773.780	**Total investments**	**8,473.587**

12. Financial Instruments

Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following tables analyse the carrying amounts of financial assets and liabilities. The tables also include current assets and liabilities which are not included in note 11. No financial assets have been reclassified during the financial year.

31st March 2019				31st March 2020		
Designated as fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost		Designated as fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
£m	£m	£m		£m	£m	£m
			Financial assets			
95.835	-	-	Fixed interest securities	-	-	-
1,404.441	-	-	Equities	356.712	-	-
70.204	-	-	Index-linked securities	-	-	-
6,693.790	-	-	Pooled investment vehicles	7,507.256	-	-
408.925	-	-	Properties	431.025	-	-
1.676	-	-	Derivative contracts	-	-	-
-	94.006	-	Cash deposits	-	174.055	-
-	9.100	-	Other investment balances	-	24.670	-
-	25.406	-	Debtors	-	56.507	-
8,674.871	**128.512**	**-**	**Total financial assets**	**8,294.993**	**255.232**	**-**
			Financial liabilities			
(2.166)	-	-	Derivative contracts	-	-	-
-	-	(13.155)	Creditors	-	-	(19.352)
(2.166)	**-**	**(13.155)**	**Total financial liabilities**	**-**	**-**	**(19.352)**
8,672.705	**128.512**	**(13.155)**	**Net assets or (liabilities)**	**8,294.993**	**255.232**	**(19.352)**

Net Gains and Losses on Financial Instruments

2018/19		2019/20
£m		£m
	Financial assets	
528.609	Fair value through profit or loss	(268.217)
	Financial liabilities	
(0.348)	Fair value through profit or loss	(0.282)
528.261	**Total**	**(268.499)**

Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments carried at fair value has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments are Level 1 where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Assets in this level are comprised of quoted equities, quoted fixed interest securities and unit trusts. Also included within this level are receivables and liabilities where the amount is known even where these are not quoted on active markets.

Listed investments are shown at bid prices. The bid value is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available, for example where valuation techniques are used to determine fair value and where the techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the value on the instrument is not based on observable market data.

Such instruments represent the Fund's private market investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

This level includes UK property valued independently by professional valuers and instruments which represent the Fund's private market investments. These are valued using various valuation techniques that require significant judgement in determining assumptions. The Fund's private markets investments include private equity, private real estate, private infrastructure and private debt funds.

The values of the investments in private market funds are based on valuations provided by the investment manager of the funds in which the Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Guidelines and the valuation principles of IFRS and US GAAP. Valuations are undertaken using a mixture of a 31st March 2020 valuations and a 31st December 2019 valuations adjusted for cash flows and rolled forward to 31st March 2020 as appropriate. With £1,276m (75.2%) valued as at 31st March 2020 and £421m (24.8%) valued at 31st December 2019 plus cash flows until the 31st March 2020.

The table on the next page provides an analysis of the financial assets and liabilities of the Fund into Levels 1 to 3 at fair value. The table for the previous year is also shown on the next page.

Section 7 – Tyne and Wear Pension Fund Statements

Value at 31st March 2020	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit or loss	191.233	5,965.535	1,686.984	7,843.752
Non-financial assets at fair value through profit or loss			431.025	431.025
Loans and receivables	255.232			255.232
Total financial assets	**446.465**	**5,965.535**	**2,118.009**	**8,530.009**
Financial liabilities				
Financial liabilities at amortised cost	(19.352)			(19.352)
Total financial liabilities	**(19.352)**	**-**	**-**	**(19.352)**
Net financial assets	**427.113**	**5,965.535**	**2,118.009**	**8,510.657**

Value at 31st March 2019	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit or loss	1,367.667	5,523.360	1,374.919	8,265.946
Non-financial assets at fair value through profit or loss	-	-	408.925	408.925
Loans and receivables	128.512	-	-	128.512
Total financial assets	**1,496.179**	**5,523.360**	**1,783.844**	**8,803.383**
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	(2.166)	-	(2.166)
Financial liabilities at amortised cost	(13.155)	-	-	(13.155)
Total financial liabilities	**(13.155)**	**(2.166)**	**-**	**(15.321)**
Net financial assets	**1,483.024**	**5,521.194**	**1,783.844**	**8,788.062**

Reconciliation of Fair Value Measurement within Level 3

2019/20	Market value at 1st April 2019	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains or (losses)	Realised gains	Market value at 31st March 2020
Asset type	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Private equity	601.424	157.391	(211.384)	28.003	79.341	654.775
Investment in BCPP	0.833	-	-	-	-	0.833
Infrastructure	204.943	29.983	(13.001)	13.508	4.847	240.280
Global property	335.728	93.292	(65.862)	(13.619)	29.961	379.500
UK residential property	32.277	32.594	(0.452)	(0.871)	-	63.548
UK direct property	408.925	29.412	-	(7.312)	-	431.025
Private debt	199.714	127.235	(11.874)	32.973	-	348.048
	1,783.844	**469.907**	**(302.573)**	**52.682**	**114.149**	**2,118.009**

Sensitivity of Assets Valued at Level 3

In consultation with its performance and risk advisors, the Fund has carried out an analysis of historic data and current movements in expected investment returns during the financial year. It has been determined that the asset values are likely to be accurate to within the following ranges and the Fund has set out below the consequent potential impact on the closing values of investment held at 31st March 2020.

	Assessed valuation range (+/-)	Value at 31st March 2020	Value on increase	Value on decrease
Asset type	**£m**	**£m**	**£m**	**£m**
Private equity	12.8	654.775	738.586	570.964
Investment in BCPP	-	0.833	0.833	0.833
Infrastructure	8.4	240.280	260.464	220.096
Global property	9.6	379.500	415.932	343.068
Private debt	6.9	348.048	372.063	324.033
UK residential property	4.7	63.549	66.536	60.562
UK direct property	2.8	431.025	443.094	418.956
Total		**2,118.010**	**2,297.508**	**1,938.512**

13. Nature and Extent of Risks Arising from Financial Instruments

The Fund's investment objective is:

- To invest in assets of appropriate liquidity to produce income and capital growth that, together with employer and employee contributions, will meet the cost of benefits; and

- To keep contributions as low and as stable as possible through effective management of the assets.

The Fund's primary long term risk is that it will be unable to meet its liability to pay the promised benefits to members from the assets it holds.

Therefore, the Fund seeks to maximise the investment return, whilst minimising the risk of loss. There is a well-diversified investment structure in place that aims to reduce the risks arising from price, interest rate and currency movements, from manager risk and from credit risk, to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there are sufficient funds to meet the forecast cash flows.

The Pensions Committee is responsible for the management of risk. A summary of the approach to monitoring and controlling risk is set out in the Investment Strategy Statement.

The analysis in the tables in this section is on a "look through" basis. This differs from the analysis in note 12 which is compiled under accounting standards.

Market Risk

Market risk is the risk of loss from changes to equity prices, interest rates, foreign exchange rates and credit spreads. The Fund is exposed to this risk through its investment activities, particularly through its equity holdings.

The objective of the Fund's risk management process is to identify, manage and control market risk exposure within acceptable parameters, whilst maximising the return on investment.

In general, the Fund manages excessive volatility in market risk by diversifying the portfolio in terms of asset class, geographic and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Risk on individual securities may also be managed by the use of equity futures and exchange traded options contracts at individual investment manager level.

Other Price Risk

Other price risk is the risk that the value of an investment will change as a result of changes in market prices, whether these changes are caused by factors specific to the individual investment or its issuer or to other factors that affect all such instruments in the market.

The Fund is exposed to share and derivative price risk arising from investments held for which the future price is uncertain. All investments present a risk of loss of capital which is limited, in general, to the fair value amount carried in the Fund's accounts, with the exception of any share sold "short" where the potential loss is unlimited.

Investment managers manage this risk on behalf of the Fund through diversification and selection of securities and other financial instruments. Each manager's process and portfolio is monitored by the Fund to ensure it is within the limits specified in their management agreement.

Other Price Risk – Sensitivity Analysis

In consultation with its performance and risk advisors, the Fund has carried out an analysis of historic data and movements in expected investment returns during the financial year. It has been determined that the movements in market price risk shown in the table on the next page are reasonably possible for the upcoming financial year. The equivalent movements reported last year are also shown.

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Asset type	Potential market movements in 2019/20 (+/-) %	Potential market movements in 2020/21 (+/-) %
UK equities	9.3	15.3
Overseas equities	11.3	11.3
Global equities	10.1	13.4
UK bonds	6.3	4.8
Overseas bonds	13.1	13.1
Index-linked securities	12.4	10.2
UK property	3.6	2.8
Residential property	3.6	4.7
Overseas property	10.2	9.6
Private equity	13.4	12.8
Infrastructure	9.6	8.4
Private debt	6.0	6.9
Cash	-	-

The potential price changes highlighted above are broadly consistent with a one-standard deviation movement in the value of the assets. This analysis assumes that all other variables, in particular foreign exchange rates and interest rates, remain unchanged. The analysis is done by the Fund's performance measurer based on an LGPS agreed formula which looks at the standard deviation of the last three years performance data. As Covid-19 only occurred in the final months of the year it has little effect on the overall calculations.

Had the market price of the Fund's investments increased or decreased in line with the table above, the change in the net assets available to pay benefits is as shown in the following table. The comparable figures for the previous year are shown in the table on the next page.

Asset Type	Value at 31st March 2020	Percentage Change	Value on Increase	Value on Decrease
	£m	%	£m	£m
UK equities	650.842	15.3	750.421	551.263
Overseas equities	1,758.823	11.3	1,957.570	1,560.076
Global equities	1,259.961	13.4	1,428.796	1,091.126
UK bonds	2,274.838	4.8	2,384.030	2,165.646
Overseas bonds	80.183	13.1	90.687	69.679
Index-linked securities	113.128	10.2	124.667	101.589
UK property	431.025	2.8	443.094	418.956
Residential property	63.549	4.7	66.536	60.562
Overseas property	379.502	9.6	415.934	343.070
Private equity	664.969	12.8	750.085	579.853
Infrastructure	240.279	8.4	260.462	220.096
Private debt	348.048	6.9	372.063	324.033
Cash and cash equivalents	183.770	-	183.770	183.770
Investment income due	24.394	-	24.394	24.394
Amounts due for sales	0.276	-	0.276	0.276
Total	**8,473.587**		**9,252.785**	**7,694.389**

Asset type	Value at 31st March 2019	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
UK equities	1,765.932	9.3	1,930.164	1,601.700
Overseas equities	2,579.141	11.3	2,870.584	2,287.698
Global equities	819.083	10.1	901.810	736.356
UK bonds	1,424.625	6.3	1,514.376	1,334.874
Overseas bonds	82.087	13.1	92.840	71.334
Index-linked securities	180.680	12.4	203.084	158.276
UK property	441.202	3.6	457.085	425.319
Overseas property	335.728	10.2	369.972	301.484
Private equity	614.227	13.4	696.533	531.921
Infrastructure	204.943	9.6	224.618	185.268
Private debt	199.714	6.0	211.697	187.731
Active currency	0.299	-	0.299	0.299
Cash and cash equivalents	117.509	-	117.509	117.509
Forward currency contracts	(0.492)	-	(0.492)	(0.492)
Futures	0.002	-	0.002	0.002
Investment income due	8.261	-	8.261	8.261
Amounts due for sales	6.406	-	6.406	6.406
Amounts payable for purchases	(5.567)	-	(5.567)	(5.567)
Total	**8,773.780**		**9,599.181**	**7,948.379**

The analysis in the previous two tables is on a look through basis. This differs from the analysis in note 12 and the following tables which are compiled under accounting standards.

Interest Rate Risk

The Fund invests in financial assets to obtain a return on the investment. These investments are subject to interest rate risk, which represents the risk that the fair value of future cash flows will fluctuate because of changes in market interest rates.

The Fund's direct exposures to interest rate movements as at 31st March 2019 and 31st March 2020 are set out below. These represent the interest rate risk based on underlying financial assets at fair value.

31st March 2019		31st March 2020
£m		£m
117.509	Cash and cash equivalents	183.770
1,506.712	Bonds	2,355.021
180.680	Index-linked securities	113.128
1,804.901	**Total**	**2,651.919**

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets held to pay benefits. Bond instruments tend to fall in value when interest rates rise and rise in value when interest rates fall.

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The following table shows the Fund's asset values that have direct exposure to these rate movements. It also shows the reasonable change predicted on the asset value of a 1% movement in interest rates up or down. The comparable figures for the previous years are also shown.

Asset type	Value at 31st March 2020	Reasonable change predicted	Value on increase	Value on decrease
			-1% rate change	+1% rate change
•	£m	%	£m	£m
Cash and cash equivalents	183.770	-	183.770	183.770
Fixed interest securities	2,355.021	5.3	2,479.837	2,230.205
Index-linked securities	113.128	10.2	124.667	101.589
Total	**2,651.919**		**2,788.274**	**2,515.564**

Asset type	Value at 31st March 2019	Reasonable change predicted	Value on increase	Value on decrease
			-1% rate change	+1% rate change
	£m	%	£m	£m
Cash and cash equivalents	117.509	-	117.509	117.509
Fixed interest securities	1,506.712	6.3	1,601.635	1,411.789
Index-linked securities	180.680	12.4	203.084	158.276
Total	**1,804.901**		**1,922.228**	**1,687.574**

Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates. The Fund is exposed to this risk on investments denominated in any currency other than Sterling. The Fund holds both monetary and non-monetary assets denominated in overseas currencies.

The following table shows the Fund's currency exposures as at 31st March 2019 and at 31st March 2020.

Value at 31st March 2019 £m	Asset type	Value at 31st March 2020 £m
82.087	Overseas fixed interest	80.183
3,606.237	Overseas quoted equities	3,018.784
227.813	Overseas unquoted equities	174.276
684.830	Overseas pooled investment vehicles	732.706
(0.492)	Forward currency contracts	-
28.455	Overseas currency	27.589
4,628.930	**Total**	**4,033.538**

Currency Risk – Sensitivity Analysis

Following an analysis of historical data that was carried out in consultation with the Fund's performance and risk adviser, the Fund considers the likely volatility associated with foreign exchange to be 10.9%. The following table shows the impact of a 10.9% increase or decrease in the net asset value of those assets exposed to currency risk. The value of the Fund's overseas assets in Sterling terms will increase as Sterling weakens, and decrease as Sterling strengthens.

The comparable figures for the previous year are also shown.

Asset type	Value at 31st March 2020	Potential change	Potential market movement	Value on increase	Value on decease
	£m	%	£m	£m	£m
Overseas fixed interest	80.183	10.9	8.739	88.922	71.444
Overseas quoted equities	3,018.784	10.9	329.047	3,347.831	2,689.737
Overseas unquoted equities	174.276	10.9	18.996	193.272	155.280
Overseas pooled investment vehicles	732.706	10.9	79.864	812.570	652.842
Overseas currency	27.589	10.9	3.007	30.596	24.582
Total	**4,033.538**		**439.653**	**4,473.191**	**3,593.885**

Asset Type	Value at 31st March 2019	Potential change	Potential market movement	Value on increase	Value on decease
	£m	%	£m	£m	£m
Overseas fixed interest	82.087	13.0	10.671	92.758	71.416
Overseas quoted equities	3,606.237	13.0	468.811	4,075.048	3,137.426
Overseas unquoted equities	227.813	13.0	29.615	257.428	198.198
Overseas pooled investment vehicles	684.830	13.0	89.027	773.857	595.803
Forward currency contracts	(0.492)	13.0	(0.063)	(0.555)	(0.429)
Overseas currency	28.455	13.0	3.699	32.154	24.756
Total	**4,628.930**		**601.760**	**5,230.690**	**4,027.170**

Manager Risk

Manager risk is the risk that the manager does not invest in a manner required by the Fund. This is controlled through the investment objectives and restrictions in each manager's agreement and through the ongoing monitoring of the managers.

The investment managers hold a diversified portfolio of investments that reflect their views, relative to their respective benchmarks.

The Pension Committee has considered and addressed the risk of underperformance by any single investment manager by appointing a range of investment managers.

This is further enhanced by the selection of a range of managers by Border to Coast for the individual pooled funds that they hold on behalf of the Fund.

Credit Risk

Credit risk is the risk that the counterparty to a transaction or investment fails to discharge its obligation and the Fund incurs a financial loss. Investments are usually valued by the market after this risk has been taken into account.

To this end, almost the Fund's entire investment portfolio is exposed to some level of credit risk, with the exception being derivatives where the risk equals the net market value of a positive derivative.

The Fund seeks to minimise this risk by investing in and through high quality counterparties, brokers and financial institutions. In addition to these the Fund also lends money to local authorities which it deems to be rated at AA, the same as the UK Government which is the guarantor should any local authority fail to meet its obligations.

Contractual credit risk is represented by the net payment or receipt outstanding and the cost of replacing the derivative position in the event of a default.

The Fund's cash holding under its internal treasury management arrangements as at 31st March 2020 was £156.420m (£68.340m in 2018/19). The Fund sets its credit criteria in consultation with the Council's treasury management advisor, Link Asset Services. Deposits are only made with AAA rated money market funds and with banks and financial institutions that meet the Fund's credit criteria and are included on Link Asset Services' listing of approved institutions.

The internally managed cash was held with the following institutions:

	Rating	Value at 31st March 2019	Value at 31st March 2020
		£m	£m
Money market funds			
Aberdeen Standard	AAA	14.570	14.750
Federated	AAA	1.510	14.750
Insight	AAA	0.300	14.750
Legal and General	AAA	4.650	0.500
Bank deposit accounts			
Lloyds Bank	A+	2.310	2.670
Bank of Scotland	A+	-	15.000
Santander	A	-	15.000
Australia and New Zealand	AA-	5.000	5.000
Helaba	A+	10.000	-
Sumitomo	A	5.000	-
Local authorities			
Thurrock Council		5.000	15.000
Gloucestershire County Council		-	15.000
Wirral Metropolitan Borough Council		-	15.000
Kingston upon Hull City Council		-	10.000
City of Aberdeen Council		-	5.000
London Borough of Hammersmith and Fulham Council		-	5.000
Royal Borough Windsor and Maidenhead Council		-	5.000
Surrey County Council		5.000	5.000
South Somerset District Council		-	3.000
West Berkshire Council		-	1.000
London Borough of Barking and Dagenham Council		5.000	-
West Dunbartonshire Council		5.000	-
East Dunbartonshire Council		5.000	-
Total		**68.340**	**161.420**

Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its obligations as they fall due. This is controlled by estimating the net benefit outgo or inflow and ensuring that sufficient cash balances are available.

Weekly forecasts are carried out to understand and manage the timing of the Fund's cash flows.

The Fund takes steps to ensure that it has adequate cash resources to meet its commitments and has immediate access to cash.

All financial liabilities are due within twelve months of 31st March 2020.

14. Current Assets and Liabilities

31st March 2019 £m		31st March 2020 £m
	Current assets	
6.167	Contributions - members	5.077
15.718	Contributions and recharges due - employers	16.906
0.873	Sundry debtors	29.795
22.758	**Total current assets**	**51.778**
	Current liabilities	
(1.605)	Unpaid benefits	(1.221)
(6.871)	Sundry creditors	(13.487)
(8.476)	**Total current liabilities**	**(14.708)**

The large increase in sundry debtors as at 31st March 2020 is mainly due to an allowance for £22.853m as a result of a transfer of staff from Northumberland College to the City of Sunderland College where the amount of the transfer had been agreed but not paid as at that date.

15. Agency Services

The Fund pays discretionary awards to the former employees of a number of employers. The amounts paid are included in the Fund Account and then deducted as a recharge as these amounts are fully reclaimed from the employer bodies. The sums for each employer are disclosed in the table on the next page.

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2018/19 £m	Payments on behalf of:	2019/20 £m
2.487	Newcastle City Council	2.467
2.099	Sunderland City Council	2.071
1.951	Gateshead Council	1.965
1.793	North Tyneside Council	1.772
0.806	South Tyneside Council	0.788
0.374	Nexus	0.338
0.237	Newcastle International Airport	0.239
0.228	Police and Crime Commissioner for Northumbria	0.229
0.071	Tyne and Wear Residuary Body	0.063
0.055	Tyne and Wear Fire and Rescue Service	0.055
0.049	University of Sunderland	0.050
0.049	The Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority	0.050
0.039	Northumbria University	0.041
0.017	Workshops for the Adult Blind	0.015
0.015	Assessment and Qualifications Alliance	0.015
0.010	Newcastle College	0.011
0.008	Association of North East Councils	0.009
0.008	Newcastle Theatre Royal Trust	0.009
0.010	Northern Council for Further Education	0.008
0.007	One North East	0.007
0.007	Wearside College	0.007
0.007	Northumbria Tourist Board	0.007
0.006	Benton Grange School	0.007
0.006	Gateshead Magistrates' Courts	0.006
0.005	Gateshead College	0.005
0.004	Sunderland Magistrates' Courts	0.005
0.003	City of Sunderland College	0.005
0.004	North Tyneside Disability Advice	0.004
0.004	South Tyneside Magistrates' Courts	0.004
0.004	Sunderland Empire Theatre Trust	0.004
0.003	Higher Education Funding Council for England	0.003
0.003	Monkwearmouth College	0.003
0.003	North East Regional Employers Organisation	0.003
0.003	South Tyneside Homes Limited	0.003
0.003	Tyne and Wear Development Company Limited	0.003
0.002	Wallsend Hall Enterprises Limited	0.002
0.002	Catholic Care North East	0.002
0.002	North Tyneside College	0.002
0.002	North Tyneside Magistrates' Courts	0.002
0.001	Age Concern Newcastle	0.001
0.001	Tyne and Wear Enterprise Trust	0.001
10.388	**Total agency services**	**10.281**

In addition to this service for employers within the Fund, the Fund has taken over the administration of the Northumberland County Council Pension Fund. The agreement is that the Fund is reimbursed for all pension costs it pays out on their behalf and the costs have not been included within the Fund's financial accounts.

16. Additional Voluntary Contributions (AVCs)

The Fund offers two types of AVC arrangements.

Additional periods of membership can be purchased within the LGPS, with the contributions being invested as part of the Fund's assets.

In addition, the Pensions Committee appointed Equitable Life Assurance Society in 1989 and The Prudential Assurance Company in 2001 for the investment of other AVCs specifically taken out by Fund members. Contributions to these external providers are invested separately from the Fund's own assets on a money purchase basis. In accordance with the LGPS (Management and Investment of Funds) Regulations 2016, these amounts are not credited to the Fund and as such are excluded from the Fund's accounts.

During the year all existing policies that were managed by Equitable Life were transferred and are now administered by Utmost Life and Pensions.

During 2019/20, £2.230m of contribution income was received into the AVC funds provided by The Prudential (£2.426m in 2018/19). As at 31st March 2020, these funds were valued at £15.277m (£13.887m in 2018/19).

During 2019/20, £0.003m of contribution income was received into the AVC funds provided by Utmost Life and Pensions (£0.006m in 2018/19). As at 31st March 2020, these funds were valued at £0.022m (£0.019m as at 31st March 2019).

The funds are valued on a bid basis by each of the providers and take no account of accruals.

17. Analysis of Investments over Managers

The Fund employed six external investment managers as at 31st March 2020. Each manager is a specialist in the market in which they invest. This broad based management structure seeks to ensure that investment returns are not overly influenced by the performance of any one manager. In addition, the Fund has started to invest with Border to Coast in a number of their funds. It is expected that the range of investments with Border to Coast will continue to increase over the coming years.

The Fund also has investment programmes across the four alternative asset classes of private equity, infrastructure, global property and private debt.

The private equity programme is well diversified across providers, geography, industry and vintage years. The Fund has made commitments to fund of funds provided by HarbourVest and Pantheon, secondary funds managed by HarbourVest, Lexington Partners and Coller Capital, and direct/co-invest funds with HarbourVest, Pantheon, Capital International, Lexington Partners, Partners Group and more recently through Border to Coast.

The Fund has invested in infrastructure through funds provided by Partners Group, Infracapital, Pantheon, AMP Capital and Border to Coast.

The Fund has invested in private debt through funds provided by Pemberton, and HPS Investment Partners. Further commitments have been made to funds managed by Pantheon and Border to Coast but no investments have been made before the year end.

Investment in global property is through funds provided by Partners Group.

The Fund invests in residential property through funds provided by Aberdeen Standard and Hearthstone Investments (GP) Limited.

The market value of the investments in the hands of each manager was:

31st March 2019 £m			31st March 2020 £m	
		Investments managed by Border to Coast		
-	-	Global equities	578.925	6.8%
368.690	4.2%	UK equities	292.475	3.5%
-	-	Investment grade credit	1,612.928	19.0%
-	-	Private equity	6.836	0.1%
-	-	Infrastructure	7.708	0.1%
368.690	**4.2%**		**2,498.872**	**29.5%**
		Investment managed outside of the pool		
408.925	4.7%	Aberdeen Property Investors	431.025	5.1%
669.469	7.6%	Janus Henderson Global Investors	307.322	3.6%
770.342	8.8%	JP Morgan Asset Management	111.517	1.3%
179.063	2.0%	Lazard Asset Management	177.495	2.1%
3,606.308	41.1%	Legal and General Investment Management	3,000.540	35.3%
104.724	1.2%	TT International	82.046	1.0%
816.278	9.3%	M&G Investments	-	-
367.910	4.2%	BlackRock	-	0.0%
0.299	0.0%	Active currency	-	-
614.228	0.070	Private equity	658.132	7.8%
204.943	2.3%	Infrastructure	232.572	2.7%
335.728	3.8%	Global property	379.501	4.5%
32.277	0.4%	Residential property	63.549	0.7%
199.714	2.3%	Private debt	348.048	4.1%
94.882	1.1%	Managed in-house	182.968	2.3%
8,405.090	**95.8%**		**5,974.715**	**70.5%**
8,773.780	**100.0%**	**Total investments**	**8,473.587**	**100.0%**

18. Derivatives

The Fund has used a number of derivative instruments as part of its investment strategy and to assist with efficient portfolio management.

Futures

The Fund did not hold any futures contracts as at 31st March 2020. Outstanding exchange traded futures contracts for the current and previous year are as follows:

Type	Expires	Economic exposure	Market value at 31st March 2019	Economic exposure	Market value at 31st March 2020
Assets		**£m**	**£m**	**£m**	**£m**
UK fixed interest	Less than one year	(2.329)	0.002	-	-
Total assets		**(2.329)**	**0.002**	**-**	**-**
Net futures		**(2.329)**	**0.002**	**-**	**-**

Forward Currency Contracts

In past years the Fund has used Forward Currency Contracts to hedge the currency exposure on certain overseas investments. As at 31st March 2020, the Fund did not hold any such contracts (£0.002m in 2018/19).

19. Securities Lending

The Fund operates a securities lending programme through its custodian, Northern Trust. Securities totalling £2.326m were out on loan as at 31st March 2020. The breakdown of securities on loan was:

31st March 2019 £m		31st March 2020 £m
19.337	Fixed interest securities	-
22.488	UK equities	-
46.045	Overseas equities	2.326
87.870	**Total securities lending**	**2.326**

The value of collateral against which the securities were lent out is £2.525m (£121.320m in 2018/19). This collateral consists of acceptable securities, Government debt and obligations issued by supranational entities. It should be noted that as the Fund is now investing mainly through Border to Coast the majority of securities lending will now be done by them on behalf of the Fund.

20. Property Holdings

2018/19 £m	Property holdings	2019/20 £m
366.230	Opening balance	408.925
29.633	Purchases	14.528
7.481	New construction	13.368
0.275	Subsequent expenditure	1.512
5.306	Net increase or (decrease) in market value	(7.308)
408.925	**Closing balance**	**431.025**

There are no restrictions on the sale of the property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligations to purchase, construct or develop any of these properties.

The future minimum lease payments receivable by the Fund are as follows:

31st March 2019 £m		31st March 2020 £m
21.117	Within one year	21.544
78.447	Between one and five years	79.925
154.756	Later than five years	141.400
254.320	**Minimum due from leases**	**242.869**

The above disclosures have been reduced by a credit loss allowance of 5% per annum reflecting the Fund's expected loss from late or non-recovery of rents from tenants. This is based on the Fund's own historic experience and from advice from the Fund's property manager based on their experience from similar properties.

21. Significant Holdings

As at 31st March 2020, the Fund had two holdings that represent more than 5% of the Fund,

The Fund has a holding with Legal and General within a without-profit insurance contract that provides access to a pool of underlying assets. The value has been determined by reference to the underlying assets using price feeds from markets. These holdings were valued at £3,000.540m and represented 35.4% of the total net assets of the Fund. During 2019/20, the insurance contract covered eleven individual funds, as follows:

31st March 2019 £m		31st March 2020 £m
1,010.536	UK equities	360.810
116.174	Asia Pacific (excluding Japan) equities	95.710
227.639	Emerging markets equities	197.493
572.649	Europe (excluding UK) equities	527.157
108.884	Japan equities	106.640
547.046	North America equities (hedged)	240.799
-	North America equities (unhedged)	226.054
819.083	Global equities	693.549
11.731	UK gilts	-
110.476	Index-linked gilts	113.128
-	Corporate bonds	359.017
82.087	Emerging markets passive government bonds	80.183
0.003	Transition	-
3,606.308	**Total**	**3,000.540**

The further holding was with Border to Coast under an Authorised Contractual Scheme (ACS) agreement. The value of the assets, held through this ACS, were valued at

£2,484.328m and represented 29.3% of the total net assets of the Fund. As at 31st March 2020, the ACS covered three individual funds as follows:

31st March 2019 £m		31st March 2020 £m
368.690	UK equities	292.475
-	Global equities	578.925
-	Investment grade credit	1,612.928
368.690	**Total**	**2,484.328**

22. Outstanding Commitments

The Fund had eighty-one outstanding commitments to investments as at 31st March 2020 as shown in the table on the next page.

Section 7 – Tyne and Wear Pension Fund Statements

Name of fund	Year	Value	Drawdowns made	Commitment outstanding	
		m	m	m	m
HarbourVest Partners VII Cayman Buyout Fund	2002	$46.0	$43.5	$2.5	£2.0
HarbourVest Partners VII Cayman Mezzanine Fund	2002	$8.0	$7.5	$0.5	£0.4
HarbourVest Partners VII Cayman Venture Fund	2002	$28.0	$27.5	$0.5	£0.4
Capital International Private Equity Fund IV	2004	$18.0	$17.8	$0.2	£0.2
HarbourVest International Private Equity Partners V - Partnership	2005	€100.0	€96.0	€4.0	£3.5
HarbourVest International Private Equity Partners V - Direct	2005	€30.0	€29.2	€0.8	£0.7
Pantheon Asia Fund IV	2005	$20.0	$18.9	$1.1	£0.9
Pantheon Europe Fund IV	2005	€25.0	€23.4	€1.6	£1.4
Pantheon USA Fund VI	2005	$30.0	$28.3	$1.7	£1.4
Lexington Capital Partners VI-B	2005	$30.0	$29.5	$0.5	£0.4
HarbourVest Partners VIII Cayman Buyout Fund	2006	$112.0	$107.0	$5.0	£4.0
HarbourVest Partners VIII Cayman Venture Fund	2006	$56.0	$54.9	$1.1	£0.9
Pantheon Europe Fund V	2006	€35.0	€33.1	€1.9	£1.7
Pantheon USA Fund VII	2006	$35.0	$32.6	$2.4	£1.9
Coller International Partners V	2006	$30.0	$29.7	$0.3	£0.2
HarbourVest Partners 2007 Direct Fund	2007	$30.0	$29.3	$0.7	£0.6
Pantheon Asia Fund V	2007	$20.0	$18.4	$1.6	£1.3
Pantheon Europe Fund VI	2007	€40.0	€37.9	€2.1	£1.9
Pantheon USA Fund VIII	2007	$35.0	$32.4	$2.6	£2.1
Capital International Private Equity Fund V	2007	$35.0	$29.4	$5.6	£4.5
Co-Investment Partners Europe	2007	€30.0	€28.5	€1.5	£1.3
Partners Group 2006 Direct Fund	2007	€30.0	€28.8	€1.2	£1.1
Infracapital Partners I	2007	£35.0	£32.8	£2.2	£2.2
Capital International Private Equity Fund VI	2010	$35.0	$30.5	$4.5	£3.6
Lexington Capital Partners VII	2010	$30.0	$24.3	$4.7	£3.8
Partners Asia-Pacific & Emerging Markets Real Estate 2009 LP	2010	$40.0	$37.6	$2.4	£1.9
Partners Group Real Estate Secondary 2009 (EURO)	2010	€60.0	€57.2	€2.8	£2.5
Partners Group Global Real Estate 2011 S.C.A., SICAR	2010	€145.0	€127.9	€17.1	£15.1
Partners Group Global Infrastructure 2009	2010	€70.0	€61.2	€8.8	£7.8
Partners Group Direct Infrastructure 2011	2011	€85.0	€74.8	€10.2	£9.0
Partners Group Direct Real Estate 2011 S.C.A., SICAR	2011	$100.0	$92.2	$7.8	£6.3
Partners Asia-Pacific Real Estate 2011 S.C.A., SICAR	2011	$65.0	$55.1	$9.9	£8.0
HarbourVest International Private Equity Partners VI - Partnership	2011	€50.0	€47.5	€2.5	£2.2
Coller International Partners VI	2012	$45.0	$31.6	$13.4	£10.8
Pantheon Asia Fund VI	2012	$40.0	$35.8	$4.2	£3.4
Pantheon Europe Fund VII	2012	€25.0	€21.6	€3.4	£3.0
Pantheon USA Fund IX	2012	$30.0	$26.5	$3.5	£2.8
Partners Group Global Infrastructure 2012	2013	€45.0	€35.8	€9.2	£8.1
Partners Group Real Estate 2014	2013	$64.0	$46.5	$17.5	£14.1
Partners Group Real Estate Income 2014	2013	€23.0	€20.9	€2.1	£1.9
Partners Group Global Real Estate 2013	2013	$130.0	$101.3	$28.7	£23.1
Partners Group Real Estate Secondary 2013	2013	$65.0	$46.8	$18.2	£14.7
HarbourVest Dover Street VIII Cayman Fund LP	2013	$30.0	$27.3	$2.7	£2.2
HarbourVest Partners IX - Cayman Buyout Fund	2013	$60.0	$49.7	$10.3	£8.3
HarbourVest Partners IX - Cayman Venture Fund	2013	$30.0	$28.5	$1.5	£1.2
HarbourVest Partners 2013 Cayman Direct Fund LP	2014	$30.0	$29.0	$1.0	£0.8
Lexington Capital Partners VIII	2014	$30.0	$23.3	$6.7	£5.4
Infracapital Partners II	2014	£19.6	£17.0	£2.6	£2.6
HarbourVest International Private Equity Partners VII - Partnership	2014	$70.0	$53.7	$16.3	£13.1
Coller International Partners VII	2015	$45.0	$33.5	$11.5	£9.3
HarbourVest Partners X - AIF Buyout Fund	2015	$50.0	$20.8	$29.2	£23.5
HarbourVest Partners X - AIF Venture Fund	2015	$25.0	$14.9	$10.1	£8.1
HarbourVest Dover Street IX LP	2016	$30.0	$21.6	$8.4	£6.8
Partners Group Direct Infrastructure 2015	2016	$140.0	$73.1	$66.9	£54.0
HarbourVest Partners Co-Investment Fund IV AIF	2016	$30.0	$27.9	$2.1	£1.7
Aberdeen UK PRS Opportunities LP	2016	£60.0	£17.5	£42.5	£42.5
Pantheon Access EUR 2016	2017	€24.3	€8.0	€16.3	£14.4
Pantheon Access USD 2016	2017	$65.0	$48.9	$16.1	£13.0
HIPEP VIII Partnership Fund	2017	$80.0	$16.0	$64.0	£51.6
Infracapital Greenfield Partners I	2017	£20.0	£9.8	£10.2	£10.2
Pantheon Global Infrastructure III	2017	$55.0	$15.4	$39.6	£31.9
Infracapital Partners III	2017	£20.0	£8.7	£11.3	£11.3
Partners Group Real Estate Secondary 2017	2017	$135.0	$64.1	$70.9	£57.2
HarbourVest Partners XI	2018	$100.0	$19.4	$80.6	£65.0
Lexington Capital Partners IX	2018	$70.0	$4.6	$65.4	£52.7
Pantheon Access EUR 2018	2018	€50.0	€0.8	€49.2	£43.5
Pantheon Access USD 2018	2018	$120.0	$39.2	$80.8	£65.2
HarbourVest Partners Co-Investment V Feeder AIF	2018	$70.0	$17.5	$52.5	£42.3
AMP Global Infrastructure II	2018	$55.0	$25.9	$29.1	£23.5
Partners Group Real Estate Opportunities 2019	2018	$190.0	$57.4	$132.6	£106.9
Partners Group Global Value Real Estate 2019	2018	€110.0	€36.1	€73.9	£65.4
HPS Core Senior Lending Fund	2018	$250.0	$226.8	$23.2	£18.7
Pemberton European Debt Investments Jersey II	2018	£190.0	£151.0	£39.0	£39.0
Hearthstone Residential Fund I	2019	£60.0	£48.9	£11.1	£11.1
Coller International Partners VIII	2019	$80.0	$0.0	$80.0	£64.5
Border to Coast Private Equity	2019	£80.0	£7.0	£73.0	£73.0
HarbourVest Dover Street X	2019	$80.0	$4.0	$76.0	£61.3
Border to Coast Infrastructure	2019	£60.0	£7.3	£52.7	£52.7
Partners Global Infrastructure 2018	2019	€110.0	€16.9	€93.1	£82.4
Border to Coast Private Debt	2019	£160.0	£0.0	£160.0	£160.0
Pantheon Private Debt PSD II	2019	$130.0	$0.0	$130.0	£104.8
Total outstanding commitments					**£1,678.2**

The Sterling figures for these outstanding commitments are based on the closing exchange rates on 31st March 2020. The total outstanding as at 31st March 2019 was £1,397.900m.

23. Related Party Transactions

South Tyneside Council is the administrating authority of the Tyne and Wear Pension Fund and as such assets of the Fund are held under the Council's name.

Under IAS 24 "Related Party Disclosures", it is a requirement that material transactions with related parties, not disclosed elsewhere, should be included in a note to the financial statements.

Governance

There were five members of the Pensions Committee who were in receipt of pension benefits from the Fund, namely the Chair of the Pensions Committee E. Leask and Committee members W. Flynn, R. Goldsworthy, J. Foreman, and J. Perry. The Vice Chair of the Pensions Committee, A. Walsh, and Committee member G. Haley are deferred members of the Fund.

An examination of returns completed by Elected Members of the Pensions Committee and Senior Officers involved in the management of the Pension Fund has not identified any other cases where disclosure is required.

Employers

During 2019/20 South Tyneside Council, had related party transactions with the Fund totalling £0.925m (£0.901m in 2018/19), analysed as follows:

- South Tyneside Council charged the Fund £0.856m (£0.703m in 2018/19) in respect of services provided, primarily being recovery of past service deficit payments, legal and building costs. Services previously charged to the Fund by BT South Tyneside Limited were taken back in house by the Council during 2018/19 and account for the rise in payments this year. Services in this area include financial and information technology services and accounted for an additional £0.135m in 2019/20

- The Fund charged South Tyneside Council £0.069m (£0.063m in 2018/19) in respect of Treasury Management services.

There were no material contributions due from employer bodies that were outstanding at the year end.

Key Management Personnel

The key management personnel of the Fund are the Head of Pensions, the Principal Investment Manager and the Principal Pensions Manager. Total remuneration payable to key management personnel is set out in the table on the next page.

2018/19 £m		2019/20 £m
0.223	Short term benefits	0.235
0.061	Post-employment benefits	0.065
0.284	**Total**	**0.300**

Other senior managers, including the section 151 officer, linked to the Fund are employed by South Tyneside Council and the costs to the Fund are included within recharges to the Fund.

24. Impairment Losses

Impairment for Bad and Doubtful debts

During 2019/20 the Fund has recognised an impairment loss of £0.114m (£0.103m in 2018/19) for the possible non-recovery of pensioner death overpayments.

25. Pension Fund Disclosures under IAS 26

Under IAS 26 the Fund is required to disclose the "actuarial present value of the promised retirement benefits", at the valuation date of 31st March 2019 these were valued by the actuary at £11,763.100m.

This figure was calculated using the following information supplied by the actuary. These are taken from the report: Whole of Pension Fund Disclosures under IAS 26 – Tyne and Wear Pension Fund – 5th June 2020. A full copy is available on request.

Information Supplied by the Actuary

The information set out below relates to the actuarial present value of the promised retirement benefits in the Fund which is part of the Local Government Pension Scheme

	Value as at 31st March 2019 £m	Value as at 31st March 2016 £m
Fair value of net assets	8,788.100	6,427.400
Actuarial present value of the promised retirement benefits (see notes)	11,763.100	(8,657.300)
Deficit in the Fund as measured for IAS 26 purposes	(2,975.000)	(2,229.900)

McCloud / Sargeant judgement

The actuarial present value of the defined benefit obligation at 31st March 2019 includes an estimated liability in relation to the McCloud/Sargeant judgement of £112.400m.

The McCloud/Sargeant judgement (December 2018) found that the transitional arrangements put in place when the firefighters' and judges' pension schemes were reformed constituted illegal discrimination. The Government has since committed to compensate members of all public service schemes who were illegally discriminated against. In relation to the LGPS in England and Wales all members joined the new 2014 Scheme for membership after 1st April 2014, but members within 10 years of normal retirement were given an underpin (or 'better of both') promise, so their benefits earned after 1st April 2014 would be at least as valuable in terms of amount and when they could be drawn, as if they had remained in the 2008 Scheme.

The remedy for the LGPS is expected to be consulted upon in the summer. The additional liability included within this note assumes the underpin will be extended to cover all members who were actively participating in the Scheme on 1st April 2012 (and not just those within 10 years of retirement) and will apply on retirement or the date of leaving service if earlier.

Equalisation and Indexation of Guaranteed Minimum Pensions

The actuarial present value of the defined benefit obligation includes an estimated liability in relation to the equalisation and indexation of Guaranteed Minimum Pensions (GMPs) beyond the arrangements already formally in place, which apply to members whose State Pension Age (SPA) is between 6th April 2016 and 5th April 2021 inclusive. Those arrangements require the LGPS to pay pension increases on GMPs at the full rate of CPI for those members, whereas GMP legislation only requires limited price increases to be applied. The additional liability included within this note assumes those arrangements for fully indexing GMPs will be extended to members whose SPA is after 5th April 2021. This has increased the defined benefit obligation by in the region of 0.1% to 0.2%.

Cost Management Process

The actuarial present value of the defined benefit obligation does not allow for any potential additional liability which may arise from the cost management valuations.

Legislation requires HM Treasury and the Scheme Advisory Board (SAB) to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable.

HM Treasury and the SAB have paused their reviews following the 'McCloud' judgement in the Court of Appeal. The cost cap process will not recommence until the remedy as applies to the LGPS has been decided.

On 24th April 2020 a number of Trades Unions filed court proceedings to challenge the Government’s decision to pause the cost management process. If successful this could lead to higher liabilities and employer costs although it is not yet known how such changes, and those required due to the McCloud case, will affect the cost management valuation due as at 31st March 2020 which it is expected would lead to changes in benefits and/or member contributions in future.

The principal assumptions used by the actuary were:

	31st March 2019 (% per annum)	**31st March 2016 (% per annum)**
Discount rate	2.4	3.4
CPI inflation *	2.2	1.8
Rate of general increase in salaries **	3.7	3.3

* In excess of Guaranteed Minimum Pension increases in payment where appropriate

** In addition, we have allowed for the same age related promotional salary scales as used at the actuarial valuation of the Fund as at the appropriate date.

Section 7 – Tyne and Wear Pension Fund Statements

Principal Demographic Assumptions

The mortality assumptions are based on actual mortality experience of members within the Fund based on analysis carried out as part of the 2019 Actuarial Valuation and allow for expected future mortality improvements. Sample life expectancies at age 65 in normal health resulting from these mortality assumptions are shown below:

Post retirement mortality	31st March 2019	31st March 2016
Males		
Future lifetime from age 65 (currently aged 65)	21.8	23.0
Future lifetime from age 65 (currently aged 45)	23.4	25.2
Females		
Future lifetime from age 65 (currently aged 65)	24.9	26.5
Future lifetime from age 65 (currently aged 45)	26.7	28.8

Different mortality assumptions have been used for other categories of member as set out in the actuary's report on the 2019 valuation. Assumptions for the rates of withdrawal and ill health retirements (for active members), the allowance made for cash commutation on retirement, and the proportion of members whose death gives rise to a dependant's pension are the same as those adopted in the 2019 valuation of the Fund, which are detailed in the actuary's valuation report.

Volatility of Results

Results under IAS 26 can change dramatically depending on market conditions. The defined benefit obligation is linked to yields on AA-rated corporate bonds, while a significant proportion of the assets of the Fund are invested in equities and other growth assets. Changing markets in conjunction with discount rate volatility will lead to volatility in the funded status of the pension fund. For example:

- 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 (to the extent the Fund invests in corporate bonds).
- 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 not perfectly correlated with inflation meaning that an increase in inflation will increase the deficit.

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.

Post Balance Sheet Date Experience

Since 31st March 2019 the Fund's assets are likely to have fallen in value due to the emerging Covid-19 crisis. This crisis has also caused a reduction in corporate bond yields, which will have led to an increase in the value of the defined benefit obligation (liabilities) on an accounting basis. The impact on the net pensions asset will depend on the Fund's asset performance, but we would expect most LGPS Funds' IAS 26 balance sheet positions to have deteriorated over the year, with a higher IAS 26 deficit at 31st March 2020. It is too early to say what impact the higher rates of mortality will have on the funding position of the Fund. At time of writing, ONS data is showing that the cumulative deaths in

2020 to date are well outside the range of the outcomes seen in recent years. The impact on longevity for the Fund's members will additionally be affected by the indirect impact of Covid-19, including the health of the surviving population, and the economic, social and political consequences of tackling Covid-19. In both of these cases, the impact on longevity could be positive or negative.

Choice of Accounting Assumptions

The calculation of the actuarial present value of the promised retirement benefits involves projecting future cash-flows from the Fund many years into the future. This means that the assumptions used can have a material impact on the surplus or deficit. As such, the Fund administering authority should ensure that it understands the reasoning behind the assumptions adopted and is comfortable that they are appropriate.

Furthermore, the Fund Administering Authority should bear in mind that, as required by the accounting standard, the assumptions (with the exception of the discount rate) have been set so that they represent a best estimate of future experience from the Fund. In practice future experience within the Fund may not be in line with the assumptions adopted. This means that the liabilities shown in this report only represent one view of the future and the true position could be different from those shown. For example, members could live longer than foreseen or inflation could be higher or lower than allowed for in the calculations.

Sensitivity of Results to Key Assumptions

In order to understand the magnitude of the possible volatility in the balance sheet position and to understand which assumptions are most important in determining the size of the liabilities, it is helpful to understand how sensitive the results are to the key assumptions.

IAS 19 requires entities to disclose information about the sensitivity of the defined benefit obligation to changes in key assumptions although it is not clear that IAS 26 or the CIPFA Code of Practice requires this information. Nevertheless, we have set out how the results would alter by changing the discount rate, the pay increase assumption and pension increase assumption by plus or minus 0.1% and if life expectancy was to reduce or increase by 1 year. In each case, only the assumption mentioned is altered; all other assumptions remain the same.

Sensitivity Analysis		
Discount rate assumption		
Adjustment to discount rate assumption	**0.1%**	**-0.1%**
	£m	**£m**
£ change to present value of the defined benefit obligation	-241.8	246.9
% change in present value of defined benefit obligation	-2.1%	2.1%
Rate of general increase in salaries		
Adjustment to salary increase rate assumption	**0.1%**	**-0.1%**
	£m	**£m**
£ change to present value of the defined benefit obligation	31.6	-31.2
% change in present value of defined benefit obligation	0.3%	-0.3%

Rate of increase to pensions in payment, deferred pensions increase assumption and rate of revaluation of pension accounts		
Adjustment to pension increase rate assumption	**0.1%**	**-0.1%**
	£m	**£m**
£ change to present value of the defined benefit obligation	215.3	-210.6
% change in present value of defined benefit obligation	1.8%	-1.8%

Post retirement mortality assumption		
Adjustment to members' life expectancy	**- 1 year**	**+ 1 year**
	£m	**£m**
£ change to present value of the defined benefit obligation	-449.6	452.1
% change in present value of defined benefit obligation	-3.9%	3.9%

For figures relating to individual employers of the Fund, please refer to each employer's final accounts.

26. Other sensitive areas

In accordance with the Code the following notes are deemed to be containing sensitive information and are disclosed for transparency reasons.

Expenses paid to members of the Pensions Committee totalled £0.029m in the year to 31st March 2020 (£0.022m in 2018/19). These have been included within oversight and governance costs included in note 9.

The Fund is audited by Ernst and Young LLP who received a fee of £0.027m (£0.027m in 2018/19) for carrying out this audit. These fees are also included in the administration and oversight and governance cost lines in note 9.

27. Policy documents

The Pension Fund has a number of key policy documents that outline the framework within which the fund operates, all of which can be found on the Funds website www.twpf.info under Fund's Plans and Policies. These include:

Investment Strategy Section

- Investment Strategy Statement
- Corporate Governance Policy
- Governance Compliance Statement

Funding Strategy Section

- Funding Strategy Statement

Pension Service Section

- The Pension Service Plan
- Communications Policy

Pensions Administration Section

- The Pensions Administration Strategy
- The Fund's Discretions within the Local Government Pension Scheme

28. Investment Performance

For the first ten months of the year market returns had generally been positive, despite some volatility during periods of uncertainty regarding Brexit. However, it all changed in late February, with the global outbreak of Covid-19 and the lockdowns that were imposed in countries across the world. With concerns over future economic activity, equities fell dramatically and at the fastest rate ever. In this environment it was only the safest assets, primarily government and high quality corporate bonds that proved resilient over the final quarter of the year. It was only after governments and central banks launched monetary and budgetary programmes to protect economies, companies and employees that some calm did return to markets.

Over the year, the highest positive return was produced by gilts at 9.9%. Index linked gilts and corporate bonds also produced positive returns over the year. All of the major equity markets posted negative returns over this period. The falls ranged from 2.1% for Japanese equities through to 18.5% for UK equities. The negative sentiment on Sterling provided some protection against the falls in overseas equity markets for UK based investors. Property produced a modest positive return over the year, however, it should be noted that it was difficult to accurately value properties at the end of March due to lack of market activity. The same was also true to an extent for private market investments.

The Fund's diversified investment strategy provided some protection against these extreme market conditions at the end of the year. The Fund's total return in 2019/20 was a -3.4% (after adjusting for all fees and expenses), which was 0.4% below its benchmark return of -3.0%.

Inflation as measured by the Consumer Prices Index (CPI) was up by 1.5% over the year. Average Earnings increased by 3.1 %.

Pension fund returns are generally assessed over at least five year periods in order to avoid taking too short term a view of investment performance. The Fund's five year return of 6.0% per annum (after fees and expenses), is above the benchmark return of 5.3% per annum. This is above both CPI at 2.6% per annum, and the increase in average earnings at 0.9% per annum.

The Fund's ten year return is 7.1% per annum (after fees and expenses), which is also above the benchmark return of 6.7% per annum. The return is above the increases in CPI inflation of 2.9% per annum and the increase in average earnings at 0.9% per annum.

29. Taxation

UK Tax

The Fund is an exempt approved fund and is not liable to income tax or capital gains tax. It is not registered separately from the Council for VAT and therefore can recover its input tax.

All investment income in the accounts has been shown gross of UK income tax and the non-recoverable element has been shown as an expense.

Overseas Tax

The Fund is subject to withholding tax in certain overseas countries. In all such cases, the investment income has been grossed up and non-recoverable tax has been shown as an expense.

30. Events after the Accounting Date

Covid-19

It has been noted that the Covid-19 pandemic has had a significant negative effect on asset values towards the end of the financial year. It has also impacted on the potential certainty of the valuations of illiquid assets such as property, private equity, infrastructure and private debt as at 31st March 2020. Since the year end, quoted equity markets have recovered significantly. Despite the improving equity market conditions it is clear that the long term economic impact of Covid-19 is still to be determined and this may yet impact on the valuations of some of the illiquid assets in the Fund going forward. However, no adjustments have been made to the valuations of the illiquid assets as at 31st March 2020. The valuations provided are considered to be reasonable given the circumstances.

Pension Fund Merger

Tyne and Wear Pension Fund and Northumberland County Council Pension Fund merged on 1st April 2020. *The Local Government Pension Scheme (Northumberland and Tyne and Wear Pension Fund Merger) Regulations 2020* (UK Statutory Instrument 2020 No 502) came into force on 3rd June 2020 giving this merger retrospective effect.

All assets and liabilities of Northumberland County Council Pension Fund became the assets and liabilities of Tyne and Wear Pension Fund on 1st April 2020, and therefore will be included within the Tyne and Wear accounts from that date. Consequently, the accounts for this year take no account of the merger as it did not take effect until after the year end. The value of the Northumberland County Council Pension Fund was £1,297.840m as at the 31st March 2020.

Section 7 – Tyne and Wear Pension Fund Statements

Organisations Participating in the Fund as at 31st March 2020

Councils
Gateshead Council
Newcastle City Council
North Tyneside Council
South Tyneside Council
Sunderland City Council

Other Part 1 Scheduled Bodies
Academy 360
Acer Learning Trust
Aim High Academy Trust
All Saints Academies Trust
Balmoral Learning Trust
Barnes Academy Trust
Barnwell Academy Trust
Beacon of Light School
Biddick Academy Trust
Bright Tribe Trust
Brighter Academy Trust
Castle View Enterprise Academy
City of Sunderland College
Consilium Academies
Dayspring Trust
Diamond Hall Infant Academy
Discover Learning Trust
Discovery Learning Limited
Eppleton Academy Primary School
Extol Academy Trust
Former North East Regional Airport Committee
Former Tyne and Wear County Council
Former Tyne and Wear Residuary Body
Gateshead College
Gateshead Housing Company
Gosforth Federated Academies Limited
Grasmere Academy
Grindon Hall Christian School
Holy Trinity Church of England Academy (South Shields) Trust
Inspire Multi Academy Trust
Iris Learning Trust
Jigsaw Learning Trust
Joseph Swan Academy
Kenton School Newcastle
Kibblesworth Academy
Learning Matters Trust Limited
Lord Lawson of Beamish Academy
Monkton Infants School
Monkton Junior School
Monkwearmouth College
Newcastle College
Newcastle East Mixed Academy Trust (NEAT)
Newcastle Education Action Zone
North East Learning Trust
North Tyneside College
North View Academy Trust
Northern Lights Learning Trust
Northumberland Magistrates Court
Northumbria Police Authority
Northumbria University
Oak Learning Trust
Police and Crime Commissioner for Northumbria
Prosper Learning Trust
Redby Primary Academy
Red House Academy
River Tees Multi Academy Trust

Other Part 1 Schedule Bodies (continued)
Riverside Primary Academy
Ryhope Infant School Academy
Sacred Heart Partnership of Schools
Smart Multi Academy Trust
South Tyneside Education Action Zone
South Tyneside Homes
Southmoor Academy
St Aidan's Education Trust
St Anthony's Girls' Catholic Academy
St Cuthbert's Catholic High School
St Joseph's Catholic Education Trust
St Mary's Catholic School Trust
St Thomas More Roman Catholic Academy (North Tyneside)
Sunderland Education Action Zone
The Ascent Academies Trust
The Cedars Academy Trust
The Chief Constable for Northumbria
The Durham, Gateshead, South Tyneside and Sunderland Combined Authority
The Illuminaire Multi Academy Trust
The Laidlaw Schools Trust
The Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority
The Northern Education Trust
The Northern Saints Catholic Education Trust
The St Thomas More Partnership of Schools
The Trinity Catholic Multi Academy Trust
Trinity Academy Newcastle
Tyne and Wear Fire and Rescue Service
Tyne Coast Academy Trust
Tyne Coast College
Tyne Metropolitan College
Tynemouth College
University of Sunderland
Valour Multi Academy Trust
Vision Learning Trust
Wearmouth Learning Trust
Wearside College
West Newcastle Academy
Whickham School and Sports College
Whitburn Church of England Academy
Wise Academies
Woodard Academies Trust
Your Homes Newcastle

Part 2 Scheduled Bodies
Birtley Town Council
Blakelaw and North Fenham Parish Council
Blue Square Trading Limited
Care and Support Sunderland Limited
Castle View Fitness Centre
Illuminaire Business Services Limited
Learning World
Neat Active Limited
Nexus
Northumbria University Nursery Limited
Regent Funeral Services
Sunderland Care and Support Limited (SCSL)
Sunderland Live Limited
The Intraining Group Limited
Together For Children
University of Sunderland London Campus Limited
Victims First Northumbria
Zero Carbon Futures (North) Limited

Section 7 – Tyne and Wear Pension Fund Statements

Admitted Bodies	
Age Concern Newcastle	Maxim Facilities Management Limited (Harton Academy)
Assessment and Qualification Alliance	Maxim Facilities Management Limited (Illumaire Multi Academy Trust)
Association of North East Councils	Mears Limited
Azure Business Centres Limited	Mitie Cleaning (North) Limited
Balfour Beatty Living Places Limited	Mitie PFI Limited (Boldon School)
Baltic Flour Mills Visual Arts Trust	Mitie PFI Limited (North Tyneside)
Bell Decorating Group Limited	Morrison Facilities Services Limited 1
Benton Grange School	Morrison Facilities Services Limited 2
Benwell Young Peoples Development Project	Morse
Brunswick Young Peoples Development Project	Museums Libraries and Archives North East
BT South Tyneside Limited	National Car Parks
Bullough Contract Services	National Glass Centre
Bulloughs Cleaning Services	Newcastle Community Law Centre
Byker Community Trust	Newcastle Family Service Unit
Capita Property and Infrastructure Limited	Newcastle Gateshead Initiative Limited
Carillion Integrated Services Limited	Newcastle Healthy City Project
Carillion Services Limited (Jarrow School)	Newcastle International Airport
Carillion Services Limited (Lord Lawson Academy)	Newcastle Tenants and Residents Federation
Carillion Services Limited (SSCS)	Newcastle Tenants Federation
Catholic Care North East	Newcastle Theatre Royal Trust
CBS Outdoor Limited	Newcastle West End Partnership
Child Care Enterprise Limited	Newcastle Youth Congress
Churchill Contract Services Limited (ParkHead)	No Limits Theatre Company
Compass Contract Services (UK) Limited (Whickham School)	Norcare
Compass Contract Services (UK) Limited (Lord Lawson of Beamish Academy)	Norland Road Community Centre
Compass Contract Services Limited (Hilton Primary)	North Country Leisure
Compass Contract Services Limited (Red House Academy)	North Country Leisure 2
Compass Contract Services Limited (Thomas Hepburn and Thorp Academies)	North East Innovation Centre
Compass Group UK and Ireland	North East Metro Operations Limited
Dataspire Solutions Limited	North East Regional Employers Organisation
DB Regio Tyne and Wear Limited	North Tyneside City Challenge
Disability North	North Tyneside Disability Advice
Engie Buildings Limited	Northern Arts Association
Engie Services Limited (N Tyneside)	Northern Council for Further Education
Engie Services Limited (PB)	Northern Counties School for the Deaf
Gateshead Law Centre	Northern Grid for Learning
Gentoo Group Limited	Northumbria Tourist Board
Groundwork South Tyneside and Newcastle	One North East
Hebburn Neighbourhood Advice Centre	Orian Solutions Limited (Gateshead)
Higher Education Funding Council for England	Orian Solutions Limited (Newcastle)
Information North (North Regional Library System)	Orian Solutions Limited (Washingwell Primary)
Insitu Cleaning	Ouseburn Trust
International Centre for Life	Parsons Brinkerhoff
Involve North East	Passenger Transport Company
Jarvis Accommodation Services Limited	Percy Hedley Foundation
Jarvis Workspace Facilities Management Limited	Port of Tyne Authority
Kenton Park Sports Centre	Praxis Service
KGB Cleaning and Support Services Limited	Property Management Integrated Services and Employment Company
Kier North Tyneside Limited	Raich Carter Sports Centre
Lovell Partnership Limited	RM Education
Maxim Facilities Management Limited (S Tyneside)	Robertson Facilities Management Limited

Admitted Bodies (continued)

Robertson Facilities Management Limited (Newcastle Phase 2)
Scolarest (Newcastle Schools)
Scolarest PFI (Boldon School)
Search Project
Simonside Community Centre
S L M Community Leisure Charitable Trust
S L M Fitness and Health Limited
S L M Food and Beverage Limited
Sodexo Limited
South Tyneside Football Trust
South Tyneside Integrated Care Limited
South Tyneside Victim Support
SSE Contracting Limited
St. Mary Magdalene and Holy Jesus Trust
St. Mary the Virgin Hospital
Stagecoach Services Limited
Suez Recycling and Recovery Limited (Gateshead)
Suez Recycling and Recovery Limited (Sunderland)
Sunderland City Training and Enterprise Council
Sunderland Empire Theatre Trust
Sunderland Outdoor Activities
Sunderland People First Co-operative Community Interest Company
Sunderland Street Lighting Limited
Taylor Shaw
The Human Support Group Limited
The Ozanam House Probation Hostel Committee
Thomas Gaughan Community Association
TT2 Limited
Tyne and Wear Archives and Museums Enterprises Limited
Tyne and Wear Development Company Limited
Tyne and Wear Development Corporation
Tyne and Wear Enterprise Trust
Tyne and Wear Play Association
Tyne and Wear Small Business Service
Tyne Waste Limited
Tyneside Deaf Youth Project
Tyneside Training and Enterprise Council
Valley Citizens Advice Bureau
Walker Profiles (North East) Limited
Wallsend Citizen Advice Bureau
Wallsend Hall Enterprise Limited
Workshops for the Adult Blind

The schedule includes organisations that are no longer in existence but for which there remains a liability in the Fund.

Section 8 – Glossary of Financial Terms

Glossary of Financial Terms

To assist readers, some of the technical terms referred to in the Financial Statements are shown below with a brief description of what they mean.

Accounting Policies
Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements.

Accruals
The concept that income and expenditure are taken into account as they are earned or incurred, not when money is actually received or paid. Accrual accounting covers both revenue and capital transactions.

Actuarial Gains or Losses
For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise either because events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses), or the actuarial assumptions themselves have changed.

Arm's Length Management Organisation
A procurement option involving the creation of a company to deliver housing services on behalf of the Council. Whilst the Council still retains some management control the company is able to pursue additional funding sources and so deliver more regeneration to the borough.

Asset
Something an organisation owns e.g. land or buildings, cash and debtors or has beneficial use of.

Assets Held For Sale or Disposal
Non-current assets such as property actively marketed for disposal and expected to be sold or disposed of within 12 months of the reporting period.

Associates
An entity in which the Council has an interest on a long term basis and is jointly controlled with one or more other entities under a contractual or other binding arrangement. Voting is based on a majority decision rather than a unanimous decision.

Balance Sheet
A primary financial statement reporting the assets and liabilities of an organisation at a given date.

Budgets
A statement of the Council's forecast expenditure, that is, net income and expenditure for the year.

Capital Accounting
Ensures that a charge is made to each service to represent the cost of using non-current assets.

Section 8 – Glossary of Financial Terms

Capital Expenditure
Spending resulting in the addition or enhancement of a long term asset such as property, plant and equipment, heritage and intangible assets. Other types of expenditure can be capitalised but only with the express permission of the Secretary of State.

The **Capital Adjustment Account** shows the effect of statutory departures from the Code including the financing of capital expenditure from external sources and the impact of depreciation, impairments, amortisations and revaluation losses compared to the debt set aside provision, which the Council has to make.

Capital Grants Receipts in Advance
Capital funding received but not applied at the Balance Sheet date. This funding has conditions attached meaning it will have to be repaid if not applied.

Capital Receipts
Income generated by the disposal of non-current assets or classified under statute by the Secretary of State. Part of the monies received can be retained by the Council and used to finance capital expenditure or repay debt. The balance is paid over to Central Government.

Cash Equivalents
An asset that can readily be turned into cash at short notice and with no penalty on its value held in the accounts.

Cash Flow Statement
A primary statement reporting the movement in cash and cash equivalents of the Council during the reporting period.

CIPFA
Chartered Institute of Public Finance and Accountancy the professional body governing how the Statement of Accounts should be prepared.

Code of Practice (the Code)
The statutory basis on which the statement of accounts are prepared. The Code follows IFRS approved accounting standards and specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position.

Collection Fund
Section 89 of the Local Government Finance Act 1988 requires each Council with the power to raise council tax bills (a billing authority) to maintain a Collection Fund. Council tax and non-domestic rates are held in this fund and it should be sufficient to cover expenditure relating to the precepts of the Fire and Police Authorities, the Governments share of non-domestic rates and the net expenditure of the billing authority.

Collection Fund Adjustment Account
A statutory account to reflect the difference between the Collection Fund balance required for budgetary purposes and the actual amount of council tax and non-domestic rates income receivable.

Community Assets
These are assets that the Council intends to hold in perpetuity, which have no finite useful life and may have restrictions on their disposal. Examples include parks and cemeteries.

Section 8 – Glossary of Financial Terms

Component Accounting
If an item of property, plant and equipment comprises two or more significant components with substantially different useful lives, then each component is treated separately for depreciation purposes, as if each component was a separate asset in its own right.

Comprehensive Income and Expenditure Statement (CIES)
A primary statement showing the accounting cost in year of providing services rather than the amount to be funded from taxation. This statement includes changes in revaluation surplus, actuarial gains and losses on defined pension schemes and the gains and losses on re-measuring financial assets.

Consistency
The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Contingent Asset
A possible asset that arises from past events, and. whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Council's control.

Contingent Liability
A contingent liability is either (i) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control, or (ii) a present obligation from past events where it is not possible that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

Corporate and Democratic Core
Comprises all activities that local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

Corporate Governance
The system by which audited bodies are directed and controlled.

Council Tax
The Local Government Finance Act 1992 introduced council tax with effect from 1st April 1993 and is based upon property values. There are eight valuation bands for chargeable dwellings ranging from band "A" (the lowest valued properties) to band "H" (the highest valued properties). The Council levies the tax based upon band D properties; the actual charge will dependent upon the banding of the individual dwelling – i.e. those properties in bands A to C will pay less council tax whilst those in bands E to H will pay more.

Creditors
Amounts owed by the Council for goods and services provided where payment has not been made by the Balance Sheet date.

Section 8 – Glossary of Financial Terms

Current Service Cost (Pensions)
This is the actuarial estimate of the present value of full pension benefits earned by current employees in the year under review.

Current Value
The valuation assigned to operational property, plant and equipment so that measurement is based on service potential rather than fair value.

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 including termination of employees service through redundancy or amendment of their terms affecting the future benefits.

Debt Set Aside
The amount of money the Council has set aside to support the repayment of debt. This is in line with the policy adopted by the Council as part of its MTFP.

Debtors
Sums of money due to the Council but not received by the Balance Sheet date.

Defined Benefit and Defined Contribution Pension Schemes
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.

Defined Benefit Obligation
Represents the amount of pension payments still to be paid out at the Balance Sheet date as assessed by a qualified actuary.

Depreciation
A method of measuring the wearing out (consumption) of a non-current asset during its useful life.

Earmarked Reserves
Amounts set aside by the Council to meet future financial liabilities.

Emoluments
Payments received in cash and benefits for employment.

Employee Benefits Adjustment Account
Absorbs the differences that would otherwise arise on the general fund balance as a result of accruing for benefits earned but not taken in the year.

Existing Use Value – Social Housing
This is a vacant possession valuation of the Council dwellings adjusted to reflect the continuing occupation by a secure tenant. A further adjustment is made to reflect the difference between open market rented property and social rented property.

Section 8 – Glossary of Financial Terms

Expected Credit Loss

A reduction in value of financial instruments resulting from an assessment of the non-recoverability of that instrument.

Expenditure and Funding Analysis

A statement that reconciles the Council's financial performance based on the General Fund to the Surplus and Deficit on the Provision of Services.

Fair Value

Fair value is defined as the amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price.

Fair Value through Other Comprehensive Income (FVOCI)

A category of financial assets whereby any profit or loss is not recognised in the net cost of services until that instrument is sold or otherwise disposed of.

Finance Lease

A lease that transfers substantially all of the risks and rewards incidental to ownership of a non-current asset. Title may or may not eventually be transferred. The payments usually cover the full cost of the asset together with a return for the cost of finance.

Financial Instruments

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

Financial Instruments Adjustment Account

Records the accumulated difference between the financing costs included in the Comprehensive Income and Expenditure Statement and the accumulated financing costs required in accordance with regulations to be charged to the General Fund balance.

Financial Statements

A wider commentary on the financial position of the Council. The financial statements incorporate the statement of accounts but also include a narrative statement and an annual governance statement.

Fund of Funds

A type of investment involving the investment in a fund which itself invests in other funds.

General Fund

Expenditure and income relating to the services provided by the Council but excluding Housing Revenue Account activities.

Going Concern

An assumption that the Council will continue in operational existence for the foreseeable future.

Section 8 – Glossary of Financial Terms

Heritage Assets
A non-current asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Homes England
The national housing and regeneration delivery agency for England, enabling local authorities and communities to meet the ambition they have for their areas.

Housing Revenue Account (HRA)
The provision, management and maintenance of Council house accommodation is required by law to be accounted for separately in a Housing Revenue Account. The account records the net cost after specific Government subsidy that needs to be met by Council tenants. In general the Council cannot transfer sums between the General Fund and the HRA.

International Financial Reporting Standards (IFRS)
The nationally recognised set of accounting standards agreed by the Accounting Standards Board. These represent the accounting treatment to be followed by all commercial organisations in the United Kingdom when preparing their accounts. Council accounts are expected to accord with IFRS except where the Government considers their principles to be inappropriate or considers others to be more appropriate to Local Government accounting and reporting.

Inventories
Assets accounted for as they are released for use rather than when they are purchased.

Impairment
A reduction in value of a non-current asset resulting from causes such as obsolescence and physical damage.

Infrastructure Assets
These are assets, expenditure on which is recoverable only by continued use of the asset created, examples being highways and footpaths.

Intangible Assets
These are assets that do not have a physical form e.g. computer software.

Investment Properties
This is land and buildings where construction work and development has been completed and the asset is held for its investments potential, any rental income being negotiated at arm's length.

Levies
Similar to precepts these are sums paid to other bodies. However instead of being charged to the Collection Fund, as with precepting bodies, the costs are shown in the Comprehensive Income and Expenditure Statement. The bodies that charge a levy on the Council are the Tyne and Wear Passenger Transport Authority and Environment Agency.

Liability
A financial obligation, any debt or money owed by the Council.

Section 8 – Glossary of Financial Terms

Lifecycle Costs
Incurred in PFI contracts these represent the cost of an asset, or its part throughout its cycle life, while fulfilling the performance requirements under the contract.

Major Repairs Reserve
Capital resources unspent by the Housing Revenue Account at the Balance Sheet date. By statute this reserve can only be used to fund future capital expenditure on HRA assets.

Materiality
An item is material if its omission, non-disclosure or misstatement in the financial statements could be expected to lead to a distortion of the view given by the financial statements.

Medium Term Financial Planning (MTFP)
The process of identifying and aligning service pressure, corporate priorities and objectives as well as available resources over the medium term (5 years) and budgeting accordingly.

Money Market Funds
Mutual funds that invest in a diversified portfolio of short term, high quality debt instruments.

Movement in Reserves Statement
A primary financial statement showing the movement in year on the different reserves held by the Council. It shows the true economic cost of providing the Councils services.

Net Book Value
The amount at which non-current assets are included in the Balance Sheet being the historical cost or current value less the cumulative amounts provided for depreciation and impairment.

Net Interest on Defined Benefit Obligation
The expected increase in the year in the present value of the defined benefit obligation as the benefits are one year closer to settlement less an actuarially calculated estimate of the return on the pension scheme's investment assets during the year.

Non-Current Assets
Assets that yield benefits to the Council and the services that it provides for a period of more than one year. Examples include property, plant and equipment, land and vehicles.

Non-Distributed Costs
These are overheads for which no user benefits, and accordingly are not apportioned to services expenditure.

Non-Domestic Rates (NDR)
Non-domestic properties must pay these rates and are based upon property valuations, as undertaken by the District Valuer, and a nationally set multiplier figure.

Operating Leases
Leases other than a finance lease.

Pension Reserve
The amount set aside to offset the IAS 19 defined benefit obligation.

Section 8 – Glossary of Financial Terms

Post Balance Sheet Events
Those events occurring between the Balance Sheet date and the date on which the Statement of Accounts is signed by the Corporate Director Business and Resources.

Precept
In the calculation of the council tax and non-domestic rates for a particular year, precepts levied by appropriate bodies must be taken into account. In the case of this Council, the precepting bodies are Northumbria Police Authority, Tyne and Wear Fire and Civic Defence Authority and the Council itself who all charge the Collection Fund with the estimated sums required to cover their net expenditure, in part or in entirety.

Private Finance Initiative (PFI)
A method of purchasing assets and services over a longer term period, usually 25 years. The financial risks involved are usually shared between the Council and the PFI operator.

Provisions
Provisions are required for any losses that are likely to be incurred, or certain to be incurred, but uncertain as to the amounts or the dates on which they will arise.

Public Works Loan Board (PWLB)
A Government financed body that makes long term money available to Local Authorities who are able to borrow a proportion of their requirements to finance capital spending from this source.

Related Party Transactions
Financial statements must contain the disclosures necessary to draw attention to the possibility that the reported financial position and results may have been affected by the existence of related parties and by material transactions with them. Most related parties (i.e. precepting bodies, pension funds etc.) already have separate disclosure requirements; the main exception being members and chief officers.

Reserves
Amounts falling outside the definition of provisions are considered as reserves. Expenditure is not charged direct to any reserve. Reserves can be usable or unusable.

Revaluation Reserves
Records the accumulated gains on non-current assets held by the Council from increases in value.

Revenue Balances
An expression usually referring to the accumulated surplus on the General Fund. They can be used to avoid borrowing, pay bills in the early part of the year before income is received or to reduce the council tax charge.

Revenue Expenditure
Money spent on the day-to-day running costs of providing the various services. It is usually of a constantly recurring nature and produces no permanent asset.

Revenue Expenditure funded from Capital under Statute
Represents items of expenditure which by definition are not capital but where the Council has statutory powers to treat and fund as capital expenditure.

Section 8 – Glossary of Financial Terms

Revenue Support Grant
A government grant in aid of Council services generally. It is based upon the Government assessment of how much a Council needs to spend.

Segment
The service lines making up the cost of services in the Comprehensive Income and Expenditure Statement that equate to the Heads of Service or Corporate Leads within the Council's management structure of responsibilities.

Settlements
Occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the pension benefits provided under a defined benefit plan. Examples include schools transferring to academy status.

Specific Government Grants
Funding provided by Central Government to aid particular services or projects administered by local authorities.

Statement of Accounts
Made up of all the primary statements, the notes to the accounts and the auditor's report.

Subsidiary
An entity where the Council has 51% or more ownership or control.

Taxation and Non-Specific Grant Income
Primarily for recording revenue grants received by the Council but not for any specific purpose and capital grants received in respect of funding for the capital programme.

Trust Funds
Funds administered by the Council on behalf of charitable or specific organisations.

Unusable Reserves
Reserves created to hold the differences between accounting for Income and Expenditure under IFRS and the statutory regime governing what can and cannot be charged against usable reserves.

Usable Reserves
Funds available to the Council to support future spending.

Useful Economic Life
The period over which the Council will derive benefits from the use of a non-current asset.

Section 9 – Annual Governance Statement

South Tyneside Council and Tyne and Wear Pension Fund

Annual Governance Statement 2019/20

Introduction

1. Everything the Council does is focused around delivering our ambitious vision for South Tyneside and to ensure we deliver the best possible services and outcomes for our Community whilst providing good value for our stakeholders.

2. To help achieve our vision it is essential that the Council has effective governance arrangements. This means effective leadership, clear direction and controls to ensure that vision and policy is put into practice. These arrangements will ensure that we are resilient and able to withstand any threats that emerge which impact on the Community, on our business or our reputation.

3. This document is the Council's Annual Governance Statement, which shows how the Council is run and the review that has been carried out to check that arrangements are operating effectively. The Council is required by law to publish this statement and review arrangements. The aim is to demonstrate to the public and stakeholders that the Council is run well.

Scope of responsibility

4. South Tyneside Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards. The Council is also responsible for ensuring that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The Council 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.

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

6. The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/Solace Framework Delivering Good Governance in Local Government. A copy of the code is on our website. This statement explains how the Council has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2015, regulation 6 (3), which require all relevant bodies to prepare an annual governance statement.

The purpose of the governance framework

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

8. The system of internal control is a significant part of the governance 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. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

9. The governance framework has been in place at the Council for the year ended 31st March 2020 and up to the date of approval of the Statement of Accounts.

The governance framework

10. The Council is made up of 54 Councillors who are democratically accountable to residents of the Borough. The full Council appoints the Leader and the Leader appoints the Cabinet and Deputy Leader. The Cabinet is responsible for most day to day decisions. The Council holds the Cabinet to account by appointing scrutiny committees to question decisions and to propose policy changes where appropriate.

11. Councillor Iain Malcolm resigned as Leader of the Council on 16th November 2020. Under the Council's constitution, the Deputy Leader Councillor Tracey Dixon has assumed all leadership responsibilities with immediate effect until the next meeting of full Council.

12. The Council has restructured to ensure that it is 'Shaped to Deliver' the vision. The Council's objectives are delivered through three strategic groups:

    - Business and Resources
    - Regeneration and Environment
    - Children, Adults and Health

13. The Council's overarching governance arrangements at Member level, at strategic and operational level and the monitoring arrangements put in place are illustrated in the diagram on the next page.

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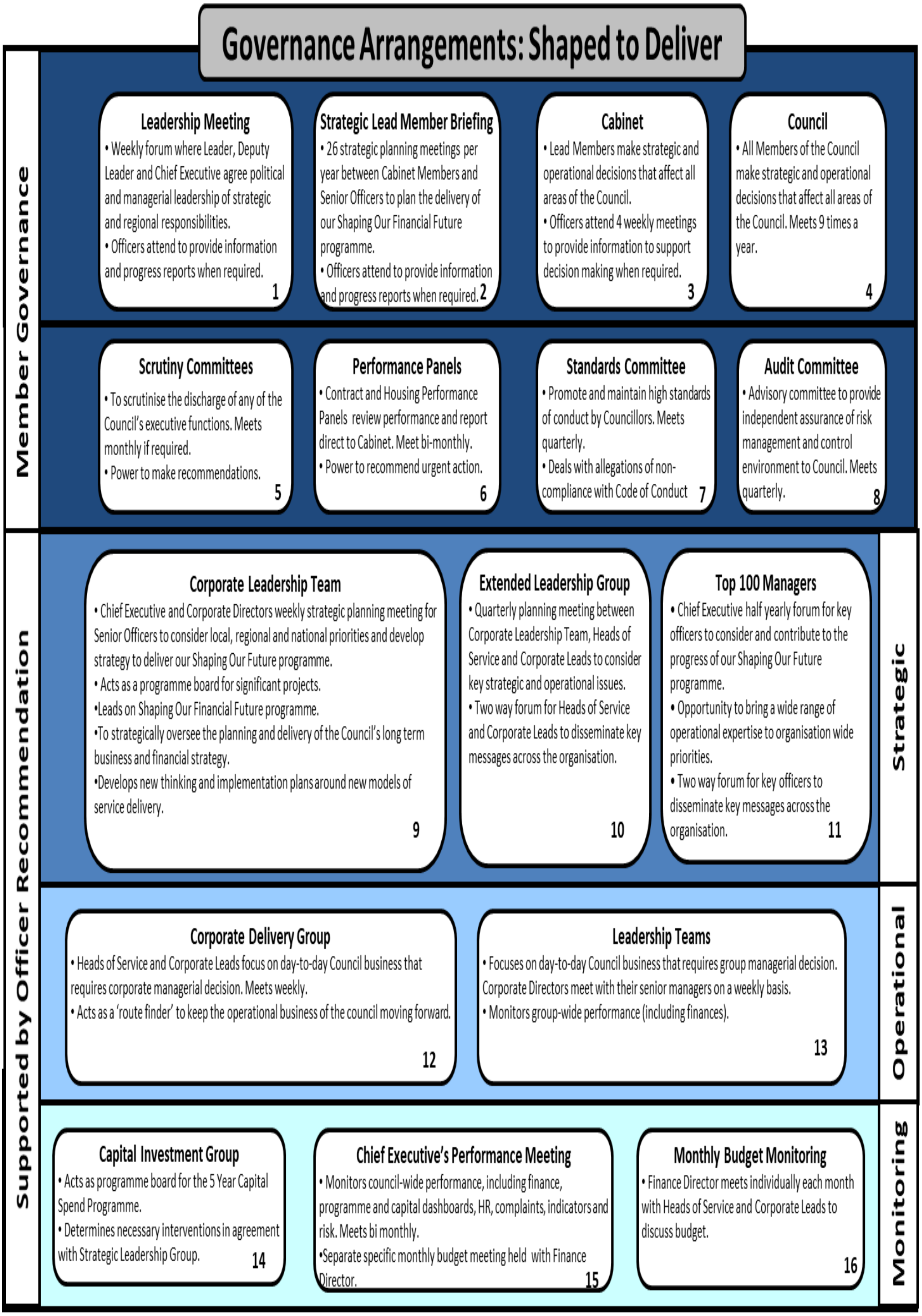

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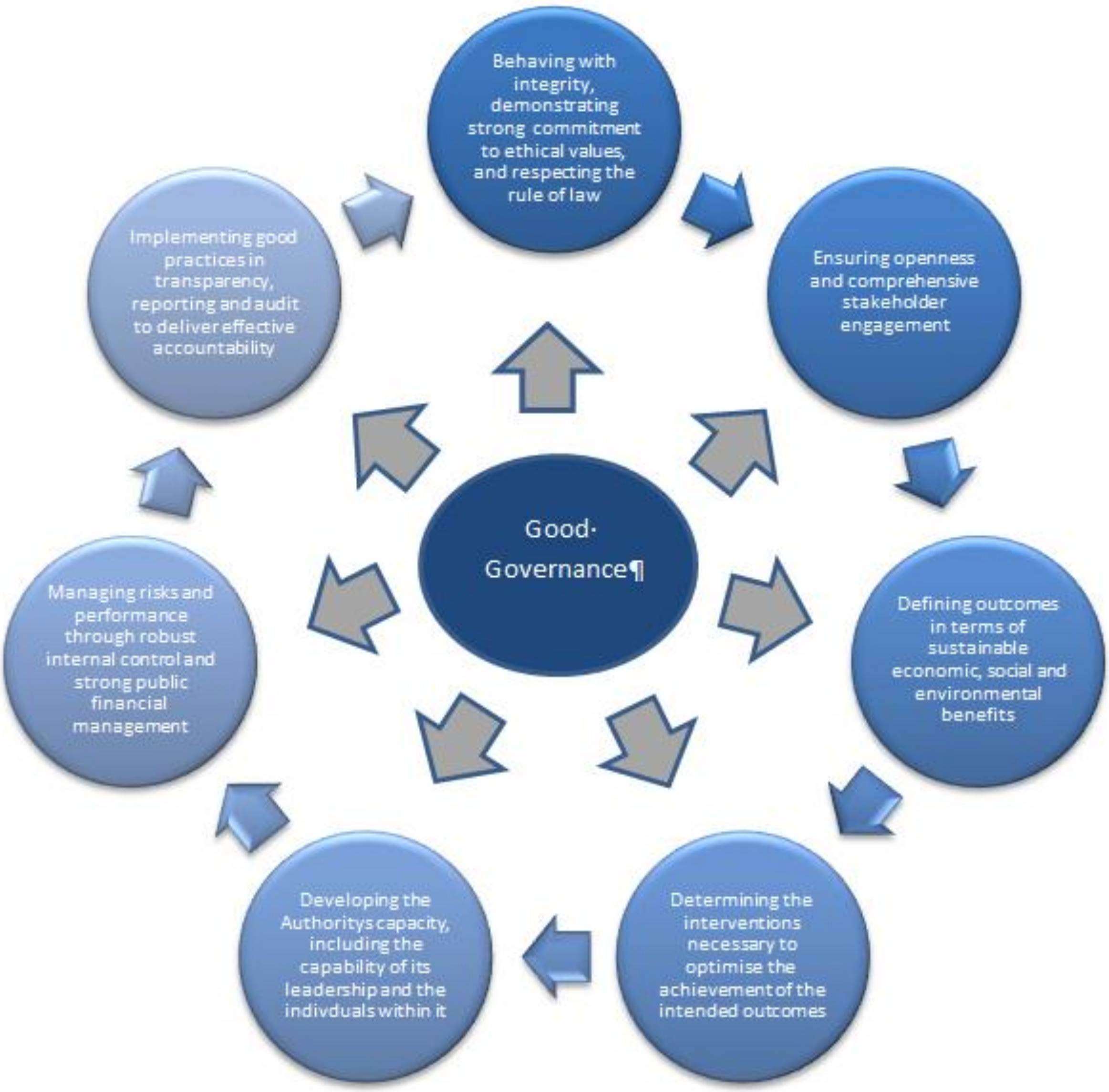
14. The authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officers in Local Government (2010). CIPFA/SOLACE published '*Delivering Good Governance in Local Government*' in 2016. This sets out the fundamental principles of corporate governance as shown in the following diagram:



15. Underpinning these principles CIPFA have identified the features that need to be in place for Councils to demonstrate that they comply with the framework. The next seven diagrams describe how the Council complies with the seven principles of good governance. In some cases these principles interrelate. They outline:

- the core principle,
- what the Council is trying to achieve, and
- the **key** policies, procedures and systems that the Council has put in place to ensure that it complies with the principles.

16. These diagrams reflect the key features of the Council's governance arrangements. The Council has a number of detailed policies and procedures to run its business which are available on the Council's website or on request.

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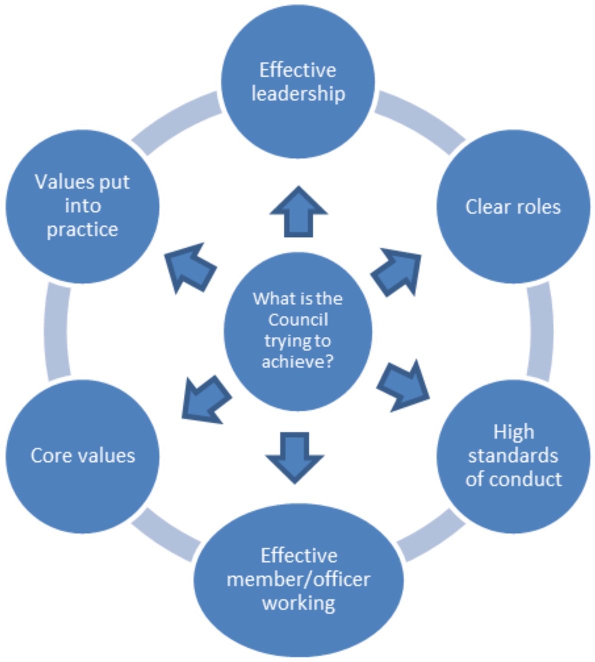
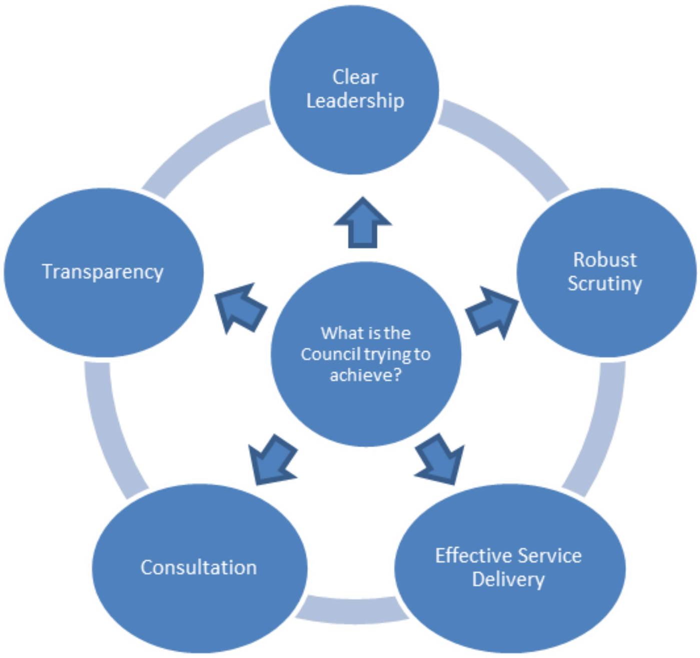
CORE PRINCIPLE 1:
Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law



How does the Council demonstrate that this core principle is achieved?

- Constitution
- Members Codes of Conduct
- Procedure for dealing with complaints against members
- Code of Corporate Governance
- Employees Code of Conduct
- Procurement Procedure Rules
- Employment Procedure Rules
- Financial Procedure Rules
- Access to Information Procedure Rules
- Information Security Policy
- Counter Fraud Strategy
- Corporate Induction Programme
- Register of Interests, Gifts and Hospitality
- Elected Member Development Strategy
- Speakout Policy
- Proper Officer Roles
- Complaints Procedure
- Standards Committee

CORE PRINCIPLE 2:
Ensuring openness and comprehensive stakeholder engagement



How does the Council demonstrate that this core principle is achieved?

- Council Strategy
- Council Annual Report
- Member Surgeries
- Committee Report Online
- External Inspections/Consultations
- Performance Management Framework
- Complaints Procedure
- Published Annual Accounts
- Transparency Code
- Community Area Forums

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CORE PRINCIPLE 3: Defining outcomes in terms of sustainable economic, social and environmental benefits

How does the Council demonstrate that this core principle is achieved?

- Council Strategy
- Medium Term Financial Plan
- Business Plans
- Performance Management Framework
- South Tyneside Partnership
- Treasury Management Strategy
- Procurement
- Capital Strategy

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

How does the Council demonstrate that this core principle is achieved?

- Council Strategy
- Performance Management Framework
- Corporate Assurance Board
- Risk Management Framework
- Scrutiny Committee
- Committee Structures
- Accurate Management Data

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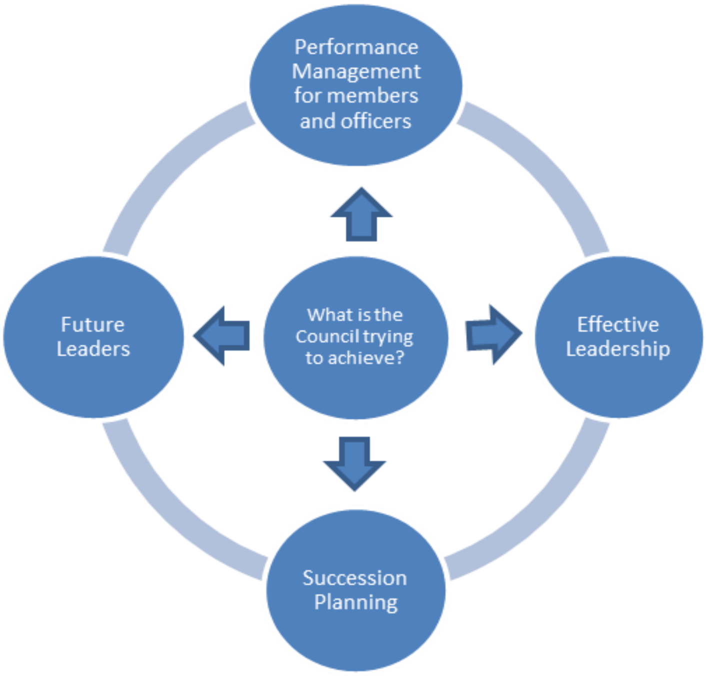
CORE PRINCIPLE 5:
Developing the Authority's capacity, including the capability of its leadership and the individuals within it



How does the Council demonstrate that this core principle is achieved?

- Induction Training
- Members Induction and Training
- Job Descriptions
- Employee Performance Management
- Corporate Training Programme
- Managers Toolkit
- Succession Planning Programme
- Occupational Development Strategy
- Occupational Health

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

How does the Council demonstrate that this core principle is achieved?

- Medium Term Financial Plan
- Business Plans
- Risk Management Framework
- Performance Management Framework
- Internal Audit
- Counter Fraud Strategy
- Speak Out Policy
- External Audit
- Audit Committee
- Publish Annual Accounts

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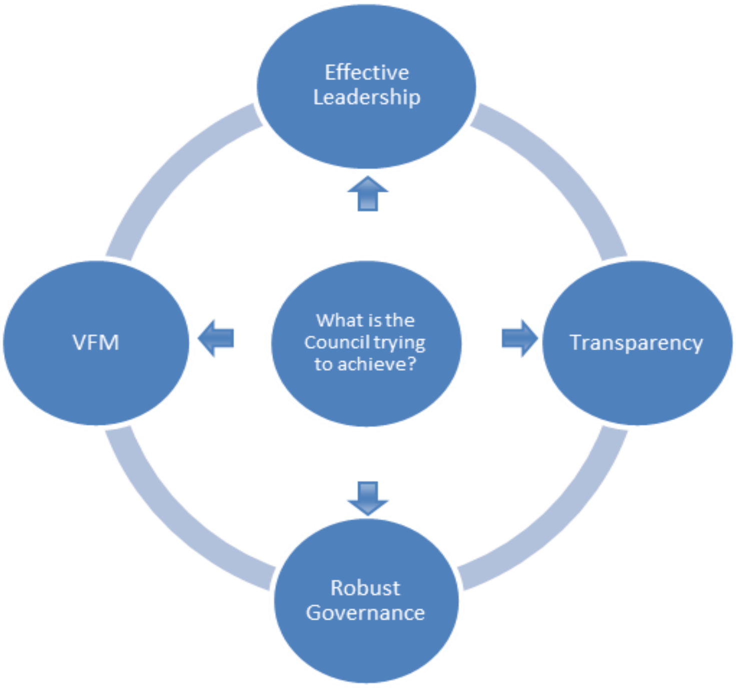
CORE PRINCIPLE 7:
Implementing good practices in transparency, reporting, and audit to deliver effective accountability

How does the Council demonstrate that this core principle is achieved?



- Committee Reports
- Freedom of Information
- Transparency Reporting
- Publish Accounts
- Annual Governance Statement
- Audit Committee
- Internal Audit

Review of effectiveness

17. The 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 was carried out under the supervision of the Council's Business and Resources Leadership Team, including senior officers from across the Council and chaired by Corporate Director Business and Resources.

18. The review follows the methodology set out by CIPFA:

- Establish statutory obligations and organisational objectives
- Identify principal risks to achievement of objectives
- Identify and evaluate key controls to manage risks
- Obtain assurance on effectiveness of key controls
- Evaluate assurances and identify gaps in controls/assurance
- Action plan to address weaknesses
- Produce Annual Governance Statement
- Report to Audit Committee and General Purposes Committee

Sources of assurance

19. The Council has identified sources of assurance to review governance arrangements and confirm that they are operating adequately or where they are found to be falling short, identify areas for improvement. The key areas of assurance are as follows:

Corporate Assurance

20. The impact of Covid 19 and associated lockdown has impacted upon the daily living of many residents especially those that are more vulnerable, has caused disruption to the delivery of services and significant loss of income to the Council. The Council established a support hub to largely assist residents who are shielding to meet food and medication needs as well as general support. The majority of services continue to be available to residents and are operating effectively albeit working practices have adapted due to social distancing requirements. Financial modelling has been undertaken reflecting upon the financial pressures and taking account of additional Government funding.

21. The impact of Covid 19 around the start of lockdown resulted in a number of Council Committee meetings being cancelled due to government guidance on social distancing. The majority of these meetings have however now re-started to ensure that strategic and operational decisions are made with appropriate oversight. Key member and officer governance arrangements, including meetings with lead members, Corporate Leadership Team, Leadership Teams, Covid Strategic Planning and Budget Monitoring meetings have continued through the Covid 19 lockdown using digital platforms. In addition, emergency response co-ordination and decision-making was supported using a Gold, Silver and Bronze governance structure.

22. There are robust financial governance processes in place to set and monitor the budget. Cost pressures are factored into the budget. There is a track record of delivering savings with 83% of the 2018/19 budget savings achieved and 87% in 19/20.

23. The CIPFA resilience index provides a range of financial sustainability measures such as reserve levels and trends, dependency upon Government grant etc. Applying the measures in the index the Council compares favourably with other authorities that have a similar population demographic.

24. There is an agreed affordable Capital Programme for 2020-25. The Council has a track record of delivering the programme within budget and timescales.

25. Internal Audit conclude that there are sound financial controls in place. The accounts continue to have an unqualified opinion from the External Auditors. The Council's control and risk management framework is monitored through the Council's Audit Committee. Actions to mitigate the Council's strategic risks are monitored through the Corporate Assurance Board.

26. There is a significant track record of attracting significant external funding for major capital projects with the Council receiving over £25m contribution towards our capital programme.

27. An Organisational Development Strategy is in place to support effective succession planning and ongoing talent management whilst an Employee Wellbeing Strategy has been developed for staff. A gradual reduction of sickness absences has been achieved.

Effective absence monitoring and reporting procedures are in place, with absence clinics being facilitated in services where absence rates are high and stress-related absences regularly reviewed to ensure appropriate support is offered.

28. Employee productivity continues to be maximised through refreshed mobile-working technology, ongoing rationalisation of workspaces, pilot 'drop down' zones and launch of broader Smarter Working Programme.

29. A health and safety governance framework is in place with good attendance at Health and Safety meetings and robust accident and near-miss reporting.

30. Lone working procedures (governing training, risk assessments, sharing intelligence on potentially violent clients, and protocol for raising alarm in the event of an incident) are being reviewed. Training and lone working devices have been offered to all Elected Members and provided to those who have requested it. A review of safety and security for Council staff and within Council facilities is ongoing.

31. There are robust and continually improved-upon corporate assurance arrangements now in place to monitor and regularly report to senior managers on the Corporate Plan delivery plan actions and associated key performance indicators, including FOI, Data Protection and Complaints performance.

32. Robust Emergency Planning arrangements are in place. Emergency planning and strategic and tactical response training is participated in by a range of appropriate staff on a regular basis. Effective IT disaster recovery plans are in place and tested.

33. Business Continuity Plans are in place for all services with critical functions and an overarching Corporate Business Continuity Plan is under development.

34. Robust data protection planning and training has taken place in light of GDPR changes, along with thorough information safety awareness raising campaign.

People Assurance

35. There has been a review of the Special Educational Needs and Disability (SEND) Leadership Board to better understand and monitor the experiences of children and young people 0-25 with SEND.

36. Monthly recovery group and newly-formed Partnership Strategic Group to oversee Early Help delivery, entailing Troubled Families reporting for families with historic multi-agency involvement. Positive letter received from Ministry of Housing, Communities and Local Government (MHCLG) with regards service improvements around Troubled Families programme.

37. Children's Services received an overall judgement rated of Good by Ofsted. Work has commenced with regional local authorities as part of the Tyneside Alliance (Partners in Practice programme). Monthly Director Childrens Services (DCS) Assurance (strategic level) and monthly performance clinics (operational level).

38. There are robust governance arrangements within Adult Social Care (ASC) to manage key projects through the ASC Programme Board (Early Help, Lets Talk, Integration, Help to Live at Home and Promoting Independence). Milestones are monitored and support provided where actions are not on track.

39. There are a number of strategies and plans in place to continue to manage demand. The implementation of the ASC Accommodation Strategy and Help to Live at Home Model are two key projects critical to managing demand and delivering the ASC Business Plan.

40. There is a Statutory Health and Wellbeing Board in place that monitors improvements in health inequalities. There are performance mechanisms in place to monitor and measure this. Some key pieces of work to improve health inequalities include development of Best Start Model, new misuse service, Alcohol Hard Reduction Strategy and Physical Activity Strategy.

Place Assurance

41. There is extensive project governance in place associated with key economic development and infrastructure projects such as IAMP, South Shields 365, the strategic highways programme and the Housing Delivery programme. These include detailed risk assessments that are regularly reviewed and updated when necessary.

42. Programmes and projects such as the International Advanced Manufacturing Park (IAMP) and SS365 Transport Interchange are also supported by a partnership board bringing together the local authority and private sector delivery partners.

Overall conclusion of the Council's governance arrangements

43. The annual review of the governance framework found that overall the Council has robust governance arrangements in place. This conclusion is based on the assurances and improvements identified from the review and detailed in the following table.

44. Only those improvements identified which are felt to be **significant** to the delivery of the Council's objectives are outlined in the table below. The Council has also agreed action plans for other areas felt to be less significant to ensure continual improvement.

Way forward

45. The steps that have been taken or need to be taken to improve the issues identified are set out in the Action plan that follows.

46. The Audit Committee discussed and approved the audited statement on 19th October 2020 and has recommended that the Council adopt it.

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No	Issue	Action taken/proposed	Responsible Officer	Target Date
1	**Impact of Covid 19** The pandemic and associated lockdown has impacted upon the daily living of many residents especially those that are more vulnerable, disruption to the delivery of services and significant loss of income to the Council	Working with partners, the Council established a support hub to largely assist residents who are shielding to meet food and medication needs as well as general support. The majority of services continue to be available to residents and are operating effectively albeit working practices have adapted due to social distancing requirements. Financial modelling has been undertaken reflecting the financial pressures and taking account of additional Government funding. Due to the ongoing threat of Covid-19, the Council has developed a robust local outbreak management plan supported by appropriate member and partner governance. The Council has also developed and is implementing a recovery and reset plan. This has a clear focus around tackling the economic impact of Covid-19 and addressing challenges in the provision of care and support to vulnerable children and adults ensuring longer-term sustainability.	Chief Executive	Ongoing

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No	Issue	Action taken/proposed	Responsible Officer	Target Date
2	**<u>Financial Resilience</u>** The Council has set another challenging budget for 2020-21 with efficiency savings of £7m to be achieved. This is in addition to £168m saved over the last 10 years.	Shaping Our Financial Future 2020-2025 programme established to reshape Council services through cross cutting work-streams. Governance framework in place to support programme with financial management embedded into the process.	Corporate Director Business and Resources	Ongoing
3	**<u>Social Care</u>** The Council cannot effectively manage increasing demand in Adults and Children's Social Care within resources.	The Council has a change programme in place with Adult Social Care to continue to manage the improvement of the service to deliver better outcomes in a more effective and efficient manner. Within Children's Social Care a new strengths based practice framework for practitioners has been implemented to identify and build on positive relationships and interventions with families. This will continue to be embedded over the coming year.	Corporate Director Children, Adults and Health	Ongoing
4	**<u>SEND Inspection</u>** Council has received a written statement of action and will be re-inspected within two years.	SEN Leadership Board re-structured. Written Statement of Action judged 'fit for purpose' by Ofsted. SEND Leadership Board in place to monitor the implementation of the Written Statement of Action.	Corporate Director Children, Adults and Health	Ongoing

The annual governance statement was approved at the meeting of the Audit Committee on 19th October 2020.

T. A. Dixon

……………………………… Councillor Tracey Dixon, Leader of the Council

26th November 2020

……………………………….. George Mansbridge, Corporate Director Regeneration and Environment

26th November 2020