

Foreward

THE 2014/15 REVENUE BUDGET - OUTTURN REPORT

Service Area	Budget	Outturn	Variance
	£ ' 000s	£ ' 000s	£ ' 000s
Wellbeing, Care & Learning	65,603	62,545	(3,058)
Economic Development & Communities	20,242	18,459	(1,783)
Commercial & Corporate Services	38,804	39,397	593
Corporate Costs	5,951	6,345	394
Net Service Expenditure as reported in note 40	130,600	126,746	(3,854)

The Council achieved a net saving of -£3.85 million against its revenue budget (2.95% of its budget). This included £2.4 million of accelerated savings against 2015/2016 savings targets as set out in the table below:-

The major variances from budget for each service Directorate are set out in the table below:-

Wellbeing, Care & Learning	Variance
Learning & Skills	£ ' 000s
Non achievement of staffing savings targets	172
Freeze on non essential supplies & services expenditure	(140)
Safeguarding & Children's Care	
Cessation of two Youth Offending Contracts	(241)
Transfer back of two Children's Homes from the private sector to Council control	(163)
Staff vacancies in Safeguarding, Forensic & Mental Health	(232)
Funding mainstream expenditure from Community Support Fund and Troubled Families grant	(306)
High cost and complexity of Children's Agency Residential School placements	525
Increase in placements with Independent Fostering Agencies	1,197
Lower than expected number of In-House Carers and Adopters	(1,205)
Social Care	
Staffing cost savings	(580)
Freeze on non essential supplies & services expenditure	(515)
Funding mainstream expenditure from grant income	(167)
Additional contributions from the Clinical Commissioning Group	(515)
Legislative changes relating to deprivation of liberty safeguards	286
Demand led contingency budget savings	(205)
Independent Sector budget savings	(175)
Additional Health contributions	(162)
Supporting People contract savings	(324)
Return of unutilised Direct Payment allocations	(270)
Other	(38)
Total	(3,058)

Foreward

Economic Development & Communities	Variance
<i>Economic Development</i>	£ ' 000s
Local Plan savings	(155)
Savings following the transfer of mima to the University of Teesside	(150)
Additional car parking income	(391)
Additional demands on the Intergated Transport Unit	151
<i>Supporting Communities</i>	
Staffing cost savings	(1,170)
Freeze on non essential supplies & services expenditure	(300)
<i>Improving Public Health</i>	
Increase in demand for Adult Substance Misuse services	106
<i>Other</i>	126
Total	(1,783)

Commercial & Corporate Services	Variance
<i>Environment, Property & Corporate Services</i>	£ ' 000s
Staffing cost savings	(90)
Crematorium income budget surplus	(231)
Ayresome Industries income shortfall	268
<i>Finance & Investment</i>	
North East Purchasing Organisation (NEPO) rebate	(125)
Housing Benefits overpayment recovery	311
Lower than expected deamnds for funding from the Corporate Initiatives budget	(143)
<i>Organisation & Governance</i>	
Staffing cost savings	(53)
Legal Services barristers' fees	(253)
Additional contribution to the Elections' Reserves	250
Partnership budegted savings target shortfall	457
Support services review savings target shortfall	568
Workforce development training budget savings	(96)
<i>Other</i>	(270)
Total	593

Corporate Costs	Variance
	£ ' 000s
Provision for the non achievement of support service review savings targets	500
Capital financing cost savings	(310)
Shortfall on capital direct revenue funding contributions from schools	583
Goods receipting account write backs	(599)
<i>Other</i>	220
Total	394

Service Area	£ ' 000s
Wellbeing, Care & Learning	722
Economic Development & Communities	1,165
Commercial & Corporate Services	509
Total	2,396

Foreward

The day to day budget monitoring arrangements of the Council are based around its own organisational structure and are different to both the statutory and Service Reporting Code of Practice (SeRCOP) requirements. The revenue outturn report was reworked to fit these formal requirements. The resulting changes however do not affect the overall net expenditure to be funded from central government grant and Council Tax, although the presentation of the figures in the Statement of Income and Expenditure account is very different. The main difference between the Council's management accounts and the published statutory accounts are as follows:

a. Service Headings:

The following service headings are used in preparation of the accounts in accordance with SeRCOP:

- Central Services to the Public;
- Cultural, Environmental, Regulatory and Planning services;
- Children's and Education Services;
- Highways and Transport services;
- Other Housing services;
- Adult Social Care;
- Corporate and Democratic Core and;
- Non-distributed costs.

b. Capital Depreciation Charges:

In the Statement of Accounts the Council is required to ensure that each service reflects a depreciation charge for the assets they use (buildings, plant and machinery etc.).

c. Transfers To and From Reserves:

Transfers into and expenditure funded from reserves are not considered part of the net cost of services and are therefore not reflected at all within the income and expenditure account.

d. Central Support Services:

Under SeRCOP, the costs of corporate services that are provided to front line services and an allocation of certain central expenses have to be included as service costs rather than central 'corporate' costs. Such services and costs include Finance, Legal, Human Resources, IT, Payroll, Creditors, Debtors, Performance & Policy, Audit etc.

e. Employer's Pension Fund Contributions:

Accounting for retirement benefits (IAS19) requires that employer's contributions to pension schemes, reflected in service accounts should only consist of 'current service' costs. As the actual contributions made to the Pension Fund by the Council include an element of back funding to recover any previous pension scheme deficit, the service expenditure figures reported in the Statement have to be adjusted to reflect the current service costs as calculated by the fund actuary.

In addition the income and expenditure account includes as part of operating expenditure the net impact of the notional return on the pension fund assets and the increase in accrued future pension liabilities, the Middlesbrough Council elements.

f. Other Differences:

Other transactions such as interest earned and paid, precept payments to Cleveland Police / Cleveland Fire Brigade / Parish Councils and trading units are not considered as part of the net cost of services and are required to be shown as separate items in the section below the service expenditure totals in the Comprehensive Income and Expenditure Statement.

Foreward

Local Economic Climate 2014/2015

Confidence has continued to improve both locally and across the UK. The latest quarterly survey carried out by the Federation of Small Businesses stated "small business confidence remains robust and firmly in positive territory, lower business costs and current economic conditions are relieving pressure for firms, giving them the confidence to take on new staff, reward staff with pay increases, and successfully access finance from their banks to invest in and build their business".

This confidence has been felt locally in Middlesbrough as the town has experienced an increase in business growth, inward investment and expansion enquiries via Economic Development. The larger companies in the engineering and manufacturing base have continued their drive forward. AV Dawson has invested significantly in their operations with the opening of a £6.5m (102,000 sq ft) facility - believed to be the only 'rail-served, energy efficient automotive steel stores of its type in the UK'. It was the largest single investment in the company's history clearly showing the confidence it has in the UK steel industry and manufacturing in the North.

Clinkards has secured planning to create new headquarters on Cannon Park to include 12,000 square feet of office space and 28,000 square feet of warehouse/distribution space.

Glanbia Nutritionals have made significant progress in overseas markets with the purchase of well-known brands in the USA to strengthen its position in the market place. Their ambition is to increase turnover by £300m and increase the workforce by 50%. The expansion will take place on their current site on Riverside Park.

Teesside University is well underway with its flagship £20m teaching facility on its Middlesbrough campus and Middlesbrough College's STEM (Science, technology, engineering, maths) facility is due for completion this summer.

The Holiday Inn Express hotel is due to open in August 2015. On the back of this development national restaurant chains are being identified to take up the retail units underneath the Cleveland Centre (facing centre square) to further diversify the town centre offering. For business elsewhere in the town centre a rate discount scheme is in place to further support retail and business sector. Wage subsidies and apprenticeship support via the National Apprenticeship Schemes and Tees Valley Skills have been in operation to further encourage business growth and promote opportunities for young people to gain local employment.

Key indicators of the state of the local economy are as follows:

Indicator	2015		2014		Direction	
	Local	UK	Local	UK	Local	UK
Unemployment - (1.)	4.4%	2.0%	6.4%	2.9%	Better	Better
Youth unemployment - (1.)	5.4%	3.1%	8.9%	4.9%	Better	Better
Empty commercial properties - (2.)	610		627		Better	
Occupancy of Council commercial premises - (2.)	97.0%		95.0%		Better	

1. Government Office of National Statistics - NOMIS Official labour market statistics
2. Proportion of commercial units let compared to the number available.

Foreward

Looking Ahead 2014/2015 and beyond

The economic outlook remains optimistic.

The Council recognises the importance of business growth and consumer confidence and will continue to support business through its Economic Development & Regeneration teams.

The Council will further support the business community by promoting local growth initiatives through its 'Middlesbrough Means Business' campaign, as well as linking with Tees Valley Skills and Tees Valley Unlimited to secure new rounds of ERDF funding to offer a range of free training, wage subsidies, workshops, investment support, initiatives and advice.

The Teesside Advanced Manufacturing Park will be completed this year with global company The Welding Institute (TWI) the first company to relocate here.

Middlehaven aims to attract further investment with the opening of the award winning state of the art neurological centre, the College STEM centre and an urban park.

In response to the regeneration and the subsequent recruitment drive, Economic Development and Community Regeneration teams are working together with partners to host a Recruitment Fair in the town. Several companies including Axa, First Source, Holiday Inn Express and On A Roll Sandwich Co will be involved to highlight the positions they have available.

The fair is set to take place in the town hall on 11 June 2015 to showcase the hundreds of vacancies on offer to local residents.

FINANCIAL REPORT

This section details where the Council got its money from and what it spent it on as well as detailing what the Council owns, how much is owed by and is owed to other organisations.

WHERE THE MONEY COMES FROM

	%	2013/14	%	2014/15	More / (Less)
		£m		£m	£m
Top Up payment	9.4%	20.8	9.9%	21.2	0.4
Local share of Business Rates	8.5%	18.9	9.0%	19.1	0.2
Revenue Support Grant	26.9%	60.4	23.0%	49.1	(11.3)
Council Tax	17.9%	40.3	19.3%	41.1	0.8
Sales Fees and Charges	16.6%	37.3	16.7%	35.7	(1.6)
Specific Grants	12.5%	28.1	13.9%	29.7	1.6
Other Local Authority and Health	6.5%	14.5	7.8%	16.7	2.2
Rent Income	1.8%	4.0	1.7%	3.7	(0.3)
Other	0.2%	0.4	-1.4%	(3.0)	(3.4)
Total	100.0%	224.7	100.0%	213.3	(11.4)

Council Tax - The Council's performance at collecting Council Tax in 2014/2015 was 93.55% collected in the year compared to 93.4% the previous year.

Foreward

WHERE THE MONEY GOES

		2013/14 restated		2014/15	More / (Less)
	%	£m	%	£m	£m
Outcome 1 -Economic Development	10.2%	23.1	9.7%	20.8	(2.3)
Outcome 2 - Supporting Communities	4.3%	9.8	3.7%	8.2	(1.6)
Outcome 3 - Improving Public Health	7.6%	17.3	8.6%	18.5	1.2
Outcome 4 - Learning & Skills	2.8%	6.5	3.0%	6.7	0.2
Outcome 5 - Safeguarding & Children's Care	13.4%	30.4	13.9%	29.9	(0.5)
Outcome 6 - Social Care	27.6%	62.0	29.6%	63.1	1.1
Outcome 7 - Environment, Property & Commercial Services	14.4%	32.5	13.9%	29.8	(2.7)
Outcome 8 - Finance & Investment	15.2%	34.1	12.4%	26.4	(7.7)
Outcome 9 - Organisation & Governance	4.0%	9.0	4.6%	9.9	0.9
Total	100.0%	224.7	100.0%	213.3	(11.4)

During 2014/2015 the Council realigned its management structure into 9 outcome areas as part of the Council's ongoing Change Programme . The 2013/2014 figures have been restated in line with this new Council management structure in order to enable comparisons to be made between the years.

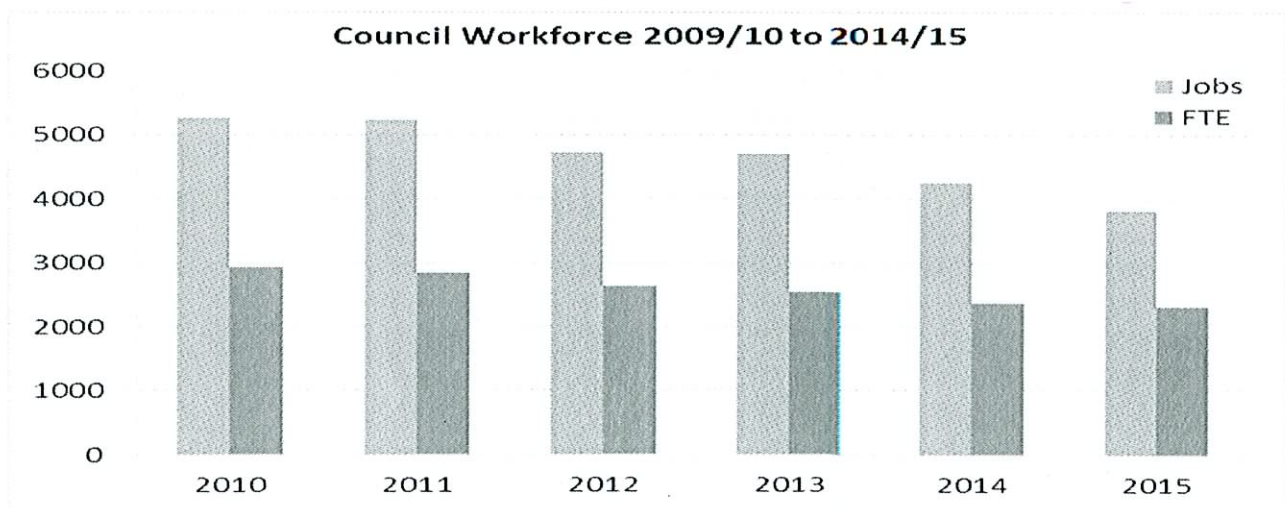
Foreward

WHAT THE MONEY IS SPENT ON

	2013/14		2014/15		More / (Less) £m
	%	£m	%	£m	
Employee Costs	31.3%	70.4	28.8%	61.5	(8.9)
Premises	4.4%	9.9	3.8%	8.0	(1.9)
Transport	1.6%	3.6	1.4%	2.9	(0.7)
Supplies and Services	21.7%	48.7	20.5%	43.7	(5.0)
Third Party Payments	36.3%	81.7	38.8%	82.8	1.1
Capital Financing Costs	4.3%	9.7	4.7%	10.1	0.4
Contributions to Capital	0.0%	0.1	0.2%	0.5	0.4
Contribution to Reserves & Provisions	0.3%	0.6	1.7%	3.7	3.1
Total	100.0%	224.7	100.0%	213.3	(11.4)

Employee Costs - costs have continued to decrease because of the impact of the Change Programme review. A number of staff have left under the Early Retirement / Voluntary Redundancy (ER/VR) scheme. Note 42 provides details of the number and cost of exit packages agreed in 2013/2014 and 2014/2015.

The graph below provides details of the council's staff numbers from 2009/2010 to 2014/2015 set out both in terms of the numbers of staff employed and full-time equivalents (FTEs) in post. Over this period, staff numbers have fallen by 1,441 (27%) and FTEs by 613 (21%).



Third Party Payments - The majority of this expenditure relates to the provision of care provided by external organisations including children's fostering, children's residential, social care adults domiciliary and residential care.

The presentation of information is different between the Financial Report data and that reported in the Statement of Accounts. A reconciliation of the data is below.

Foreward

Reconciliation of Income to Service Analysis	2013/14	2014/15	More / (Less)
	£m	£m	£m
Shown below as 'where the money comes from'	224.7	213.3	(11.4)
Income excluded from analysis			
Schools DSG Grant (note 30).	87.3	79.5	(7.8)
Other Schools Income	14.7	14.2	(0.5)
Benefits Grant Income (note 30)	81.0	81.5	0.5
Other minor amounts	14.4	8.7	(5.7)
Gross Income Value	422.1	397.2	(24.9)
Treated as 'Funding' in Services Reporting:			
Top up payment	(20.8)	(21.2)	(0.4)
Local share of Business Rates	(18.9)	(19.1)	(0.2)
Council Tax	(40.3)	(41.1)	(0.8)
Revenue Support Grant	(60.4)	(49.1)	11.3
Funding Value as noted in outturn figures above.	(140.4)	(130.5)	9.9
Income Reported by Services (note 41).	281.7	266.7	19.8

Foreward

BALANCE SHEET

A summary of the Balance Sheet is shown in the next table. This is a snapshot at the end of the year and shows what the Council owns, is owed and owes to others and how these amounts are funded.

Balance Sheet	2014	2015	More / (Less)
	£m	£m	£m
What the Council Owns	495.4	530.9	35.5
What the Council is Owed	45.3	46.8	1.5
Total Assets of the Council	540.7	577.7	37.0
What the Council Owes	(267.2)	(312.7)	(45.5)
Council Reserves	273.5	265.0	(8.5)

What the Council Owns		2014	2015	More / (Less)
		£m	£m	£m
Operational Property Plant and Equipment	1	377.8	388.5	10.7
Community Assets	2	7.9	8.3	0.4
Assets under Construction	3	2.6	22.1	19.5
Assets Held for Sale	4	0.6	0.7	0.1
Heritage Assets	5	27.2	27.4	0.2
Investment Properties	6	60.7	72.4	11.7
Cash and Cash Equivalents		14.0	9.8	(4.2)
Inventories		2.0	1.7	(0.3)
Other		2.6		(2.6)
Total		495.4	530.9	35.5

1 Operational Property, Plant and Equipment are assets owned by the authority which are used in the delivery of Council services. The value as at 31 March 2015 was £388.5 million an increase of £10.7 million from 31 March 2014. The land and buildings are revalued at least every five years as part of a rolling programme. There was a net increase of £3.4 million in the value of assets during 2014/2015. An increase in the location factor and the building cost index that are applied to assets valued on a Depreciated Replacement Cost (DRC) basis resulted in an increase of £38 million in the value of assets which are valued on a DRC basis. Acquisitions and enhancements during the year totalled £20.5 million. This included capital investment on the Transporter Bridge (£2.3 million), ICT infrastructure, software and hardware (£5.1 million), schools (£3.4 million), roads/footways/lighting (£3.5 million) and vehicles (£1.9 million).

This was offset by a depreciation charge of £17.5 million and the reclassification of £8.0 million of assets from Property, Plant and Equipment to Investment Properties or Assets held for sale. Disposals of Property, Plant and Equipment during 2014/2015 totalled £27 million. This included the transfer of ownership of MIMA to the University of Teesside (valued on the asset register at £13.9 million) and 3 Primary Schools transferred to Academy status (valued at £12.9 million).

2 Community Assets are assets that an authority intends to hold in perpetuity, that have no determinable useful life and which may, in addition, have restrictions on their disposal. e.g parks and allotments.

Foreward

- 3 Assets Under Construction** are assets being constructed by the authority which will be in the delivery of council services once completed. The authority spent £24.2 million on assets under construction during 2014/2015. This included the Middlesbrough Sports Village (£15 million), BOHO 5 (£3 million) and Teesside Advanced Manufacturing Park (£1.5 million). During the year, assets valued at £4.7 million were reclassified as Operational PPE as they became operational. This included £3 million relating to the running track based at the new Middlesbrough Sports Village which became operational in October 2014.
- 4 Assets held for sale** There was no change in the overall value during the year. Acklam Hall site was disposed of reducing the assets held for sale by £622,000. This was offset however by the reclassification of 1 Albert Terrace and the TAD Centre from PPE thus increasing the value of assets held for sale by £651,000.
- 5 Heritage Assets** are held by the authority principally for their contribution to knowledge or culture. The heritage assets held by the Authority include the art, books and artefacts collections either exhibited or stored in the local museums or MIMA art gallery. There was no change in value for this category of assets.
- 6 Investment Properties** are primarily held to earn rentals or for capital appreciation. Disposals totalled £6.5 million and included the sale of the east side of the former Prissick Farm depot, part of the Nunthorpe Hall Farm site and the land adjacent to MTLIC known as Beck View. During the year, there was a net upward revaluation of existing investment properties totalling £6.7 million. This included the upward revaluations of Newham Hall (£4 million) and Nunthorpe Grange Farm (£4.3 million). These sites had been identified for potential development which is now reflected in their valuations. The Hemlington Grange site also increased in value (£4 million) as the certainty of a sale for development increased. Sites which suffered a downward revaluation included the Council Car Parks (£2million). Assets valued at £8.1 million were reclassified as Investment Properties and subsequently reduced in value by £2.2 million once they were revalued on an Market Value Basis. The Council spent £3.6 million on Investment Properties including £2.3 million the acquisition of properties in Inner Middlesbrough. The Gresham and St Hildas sites are valued as a clear site as these properties are in the process of being demolished as part of the Inner Middlesbrough regeneration project. This has resulted in a subsequent downward revaluation of £2 million.

Foreward

Capital

Details of the capital expenditure in the year is as follows

Types of Expenditure	Spending (£ m)	Percentage
Operational Property Plant and Equipment	16.8	27.1%
Community Assets	0.4	0.6%
Heritage Assets	0.0	0.0%
Assets under Construction	24.2	39.0%
Investment Properties	3.6	5.8%
Intangible Assets	3.3	5.3%
Capital Expenditure on Assets	48.3	77.8%
Long term loan funded under capital	6.0	9.7%
Revenue Expenditure funded under capital	7.8	12.6%
Total Capital Expenditure	62.1	100.0%

Operational Property Plant and Equipment. The Authority spent £6.8 million was spent on infrastructure assets during 2014/2015 of which £2.8 million was on repairs to roads, footways and cycle routes and £2.3million was on the Transporter Bridge and Gondolas. A further £3.8 million was spent on Schools, £1.2 million on new vehicles and £1.8 million on improvements to Libraries, Leisure Centres, Care Homes and Administrative Buildings. A further £1.7 million was spent on IT hardware.

Assets under Construction. The Council spent £24.2million during 2014/2015 on Assets under Construction, with £17.5 million of the expenditure being on the Middlesbrough Sports Village, £3 million on BOHO 5 and £1.5 million on the new Teesside Advanced Manufacturing Park.

Investment Properties. The Council spent £3.6 million on its Investment Properties including £2.3million on acquisitions and improvement of Inner Middlesbrough including Gresham and St Hildas . A further £600,000 was spent on the construction Site at Middlehaven.

Intangible Assets are identifiable assets which lack physical substance, but which are controlled by the Authority and where the Authority benefits from the economic benefits and the service potential they provide. Expenditure in 2014/2015 totalled £2.3 million mainly on IT systems and licenses.

Revenue Expenditure funded from capital under statue is expenditure, which is classified as capital, but does not result in the creation of an asset owned by the Authority. £1.1 million is expenditure on Schools which are now Academies and therefore no longer assets owned by the Authority. Spending in 2014/2015 included £1.1 million on Schools that converted to Academy status and are no longer owned by the Authority, £2.4 million on the relocation of businesses from Middlehaven. £1.6million on the disabled facilities grants and adaptations.

Details of how the capital expenditure was funded are shown below.

Type of Funding	Spending (£ m)	Percentage
Grants	17.6	28.3%
Borrowing	7.6	12.2%
Other	36.9	59.4%
Total	62.1	100.0%

WHAT THE COUNCIL IS OWED

Foreward

		2014	2015	More / (Less)
		£m	£m	£m
Short Term Debtors		33.5	39.1	5.6
Short Term Investments		11.2	1.0	(10.2)
Long Term Debtors		0.6	6.7	6.1
Total		45.3	46.8	1.5

Debtors (money owed to the council) tend to be higher at year end when a lot of external recharges are made. The year end balance has increased by £8.4 million between March 2014 and March 2015.

Short-term investments (money invested in other local authorities, a variety of banks and building societies) has decreased by £10.2 million to £1.0 million. The Council is aiming to maximise the interest it earns by investing longer term. The investments are made after evaluating cash flow and potential risks.

Long Term Debtors - relate to debtors with a maturity date in excess of 12 months.

WHAT THE COUNCIL OWES

		2014	2015	More / (Less)
		£m	£m	£m
Pension Liability	1	132.8	175.1	42.3
Loans to be repaid after next year	2	78.4	75.2	(3.2)
Creditors due next year	3	41.3	52.7	11.4
Provisions	4	5.8	5.4	(0.4)
Short Term Borrowing Loans to be repaid next year	5	8.4	3.9	(4.5)
Other amounts		0.5	0.4	(0.1)
Total		267.2	312.7	45.5

1 The Pensions Liability figure within the annual accounts is prepared on an International Accounting Standard (IAS 19) basis. Under IAS 19, the Council is required to disclose the total value of all pension payments that have accumulated (including deferred pensions) at the 31 March each year. This value is made up of:

- a) The total cost of pensions that are being paid out to former employees who have retired.
- b) The total sum of the pension entitlements earned to date for current employees.

The accounting standard also requires all investments (assets) of the Pension Fund to be shown at their market value at 31 March each year. In reality, the value of such investments fluctuates in value on a day-to-day basis but this is ignored for the purpose of the accounting standard. Comparing the value of all future pension payments and the value of investments, as at 31 March, results in either an overall surplus or deficit for the Pension Fund. This is called the IAS 19 surplus or liability.

The Pension Liability increased by £42.3 million between 31st March 2014 and 31st March 2015.

Foreward

2 Long-term borrowing decreased by £3.2 million during 2014/2015.

3 Creditors is the amount of money owed by the Council to its suppliers and contractors, which totalled £52.7 million as at 31 March 2015 (£41.3 million as at 31 March 2014). Movements on creditor balances are principally due to timing differences in the processing of payments.

4 The Council has a number of **Provisions** set aside to cover the cost of known future liabilities. These include the Housing Pension Contribution Deficit, redundancy costs that have been approved in 2014/2015 but will be incurred in 2015/2016 and residual costs relating to the Mouchel ICT contract. Provisions held at 31 March 2015 totalled £5.4 million (see note 27 to the main statements).

5 Short term borrowing is the outstanding loans to the Council which will be repaid back in the next twelve months.

COUNCIL RESERVES

Council Reserves	2014	2015	More / (Less)
	£m	£m	£m
Schools	6.2	6.6	0.4
Usable Reserves	64.5	70.2	5.7
Unusable Reserves	202.9	188.1	(14.8)
Total	273.6	264.9	(8.7)

Schools - There was a £500,000 drawdown from school reserves as a result of three schools converting to academy status during 2014/2015 partially offset by a £100,000 saving on delegated schools revenue spending. Total Schools' balances stood at £6.6 million as at 31st March 2015.

The financial statements set out details of the Council's earmarked reserves, which are another essential tool to manage risk exposure and smooth the impact of major costs. Details of the Council's earmarked reserves can be found in Notes 32, 34 and 35 in the Accounting Statements. Current usable reserves total £70.2 million and the main usable reserves are:

-Capital Grants Unapplied Reserve (£7.2 million);

Capital Receipts Reserve (£13.1 million);

Change Fund including Early Retirements and Voluntary Redundancies ; (£3.7 million)

-Insurance Fund reserves to manage claims and other corporate risks (£1.3 million);

-Demand led pressures in Adults and Childrens Social Care (£2.0 million).

The Council has achieved a net revenue saving of £3.9m in 2014-15. This has resulted in an increase in General Balances from £9.6m as at 31st March 2014 to £13.5m as at 31st March 2015.

The level of the reserves is consistent with the overall financial environment and the key financial risks faced by the Council. There remain, however, significant pressure/risk issues, which reflect the routine reality of the complexity of the Council's financial operations – in particular in relation to Children's Services and Adult Social Care, which will continue to require close monitoring during the year. The Council is planning for further cuts in government revenue grants next year and beyond. In this context, the reserves are always looked at closely and no more is held in the medium term other than what is needed but equally the Council is prudent in setting aside money for new risks and major commitments.

Unusable Reserves

Foreward

Unusable reserves are reserves that are not cash backed. They consist of the Asset Revaluation Reserve (£89.5 million) and the Capital Adjustment Account (£276.4 million). The Capital Adjustment Account records the consumption of the value of assets and revenue expenditure funded from capital under statute (REFCUS) over the period that the authority benefits from their use.

TEESSIDE PENSION FUND ACCOUNTS

During the last twelve months, equity and bond markets performed strongly again, with some indices finishing the year at all-time highs. Equity markets were volatile again as investors dealt with the US ending their quantitative easing (QE) programme and market rumours abound of increasing interest rates, the European Central Bank embarking on a full programme of QE following Greek elections, the Swiss discontinuing their currency peg to the Euro, and Japan resuming their QE programme.

Strength in bond markets continued with some Governments, such as Switzerland, able to issue bonds with negative interest rate. In other words, you pay them for owning their bond. The divergence in monetary policies between the US, looking to tighten monetary policy and raise interest rates, and the Eurozone and Japan, loosening monetary policy through QE also caused the US Dollar to strengthen against other major currencies.

The other big financial story of the year was the rapid demise of the oil price. The price of Brent Crude fell from over \$100 a barrel to \$55 at 31 March 2015. The financial performance of the Fund for the year to 31 March 2015 was positive. The Fund's value rose to £3,244 million, an increase over the year of £195 million. The rise was due to strong equity and property markets.

The membership of the Fund continues to increase, with total membership at the year end now standing at 68,054, an increase of 1,528 over last year. The number of active members has decreased by 1,168 (4.9%) over the year, and decreased by 7.3% over the past five years. The number of pensioners increased by 411 (2.0%) over the year, and increased by 14.2% over the past five years. The number of deferred members increased last year by 2,285 (10.3%), and increased by 31.2% over the past five years. Where a member retires early there is a cost to the Fund arising from the fact that Contributions are no longer being received for the member, and a Pension is drawn earlier than the Actuary had assumed. It is the policy of the Fund to recharge the actuarial cost of these retirements to the employers. This policy has the advantage that the Fund recovers the cost of an early retirement at the outset. For the employer the advantages are twofold;

- 1 the impact of retirement decisions is transparent; and
- 2 the cost is invoiced separately rather than being recovered in the employers Contribution Rate, which was once the case.

In this financial year the Fund received over £5.5 million from these early retirement recharges, up on last year figure of £4.8 million, an 14% increase on last year.

Every three years the Fund actuary, AON Hewitt, carries out a full actuarial valuation of the Fund. The purpose of this was to calculate how much employers in the scheme need to contribute going forward to ensure that the Fund's liabilities, the pensions due to current and future pensioners, will be covered. Unlike most other Public Sector schemes the Local Government Scheme is a funded scheme. That means there is a pool of investments producing income which meet a significant part of the liabilities. The actuary calculates to what extent the Fund's assets meet its liabilities. This is presented as a Funding Level. The aim of the Fund is to be 100% funded, and at the last valuation the actuary was able to declare a funding level of 100%. This allowed many of the employers in the Fund to decrease the amount of their contribution for the next three years, releasing money for front-line services. The next valuation is due to be carried out in March 2016.

Municipal Mutual Insurance (MMI)

Foreward

The fund remains exposed under the terms of the Municipal Mutual Insurance Scheme of Arrangement to, providing a 15% contribution to all claim settlements made relating to losses failing to be covered by Municipal Mutual policies, which provided insurance until 1992.

Comprehensive income and Expenditure Statement

Comprehensive income and Expenditure Statement for the Year Ended 31 March 2015							
Prior Year			Current Year				
Gross Expenditure £000	Gross Income £000	Net Expenditure (Income) £000	Cost of Services by Service Area	Note	Gross Expenditure £000	Gross Income £000	Net Expenditure (Income) £000
3,897	(3,278)	619	Central Services to the Public		3,956	(3,293)	663
18,638	(6,209)	12,429	Cultural and Related Services		18,719	(5,797)	12,922
19,409	(6,878)	12,531	Environmental & Regulatory Services		18,326	(5,222)	13,104
8,450	(2,650)	5,800	Planning Services		7,927	(6,271)	1,656
161,183	(113,272)	47,911	Education and Children's Services		144,660	(105,274)	39,386
19,849	(6,680)	13,169	Highways and Transport Services		20,971	(6,648)	14,323
86,177	(84,869)	1,308	Other Housing Services		86,646	(85,764)	882
71,904	(21,075)	50,829	Adult Social Care		70,333	(25,548)	44,785
16,063	(18,466)		Public Health		15,221	(17,031)	(1,810)
405,570	(263,377)	142,193	Total Cost of Direct Services		386,759	(260,848)	125,911
4,124	(20)	4,104	Corporate and Democratic Core		4,858	(35)	4,823
2,393	0	2,393	Non Distributed Costs	2	2,017	0	2,017
412,087	(263,397)	148,690	Total Cost of Services		393,634	(260,883)	132,751
		24,902	Other Operating Income & Expenditure	3			26,631
		10,165	Financing and Investment Activities	4			2,700
		(150,586)	Taxation and Non - Specific Grants	5			(146,342)
		33,171	Deficit on the provision of services transferred to the General Fund				15,740
		(34,428)	Actuarial (Gains) / Losses on Pension Fund charged to Pensions Reserve.	28			35,804
		(13,070)	Revaluation (increases) / decreases to Land & Buildings recognised in the Revaluation Reserve.	6			(44,713)
		1,601	Depreciation written out to the Revaluation Reserve.	6			1,235
		(771)	Revaluation (increases) to Heritage Assets recognised in the Revaluation Reserve.	9			0
		(46,668)	Total Other Comprehensive Income & Expenditure				(7,674)
		(13,497)	Total Comprehensive Income and Expenditure				8,066

None of the items included as Other Comprehensive Income and Expenditure are expected to be subsequently be reclassified to the surplus or deficit on the Provision of Services.

Comprehensive income and Expenditure Statement

The day to day budget monitoring arrangements of the Council are based around its own organisational structure and are different to both the statutory and Service Reporting Code of Practice (SeRCOP) requirements. The main difference between the Council's management accounts and the published statutory accounts are as follows:

Capital Depreciation Charges:

In the Comprehensive Income and Expenditure Statement the Council is required to ensure that each service reflects a depreciation charge for the assets they use (land, buildings, plant and machinery etc.).

Revenue Expenditure Funded by Capital Under Statute (REFCUS) Charges:

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 is charged as expenditure to the relevant service in the I&E in the year.

Transfers To and From Reserves:

Transfers into and expenditure funded from reserves are not considered part of the net cost of services and are therefore not reflected at all within the income and expenditure account.

Central Support Services:

Under SeRCOP, the costs of corporate services that are provided to front line services and an allocation of certain central expenses have to be included as service costs rather than central 'corporate' costs. Such services and costs include Finance, Legal, Human Resources, IT, Payroll, Creditors, Debtors, Performance & Policy, Audit etc.

Employer's Pension Fund Contributions:

Accounting for retirement benefits (IAS19) requires that employer's contributions to pension schemes, reflected in service accounts should only consist of 'current service' costs. As the actual contributions made to the Pension fund by the Council include an element of back funding to recover any previous pension scheme deficit, the service expenditure figures reported in the Statement have to be adjusted to reflect the current service costs as calculated by the fund actuary.

In addition the income and expenditure account includes as part of operating expenditure the net impact of the notional return on the pension fund assets and the increase in accrued future pension liabilities, the Middlesbrough Council elements.

Other Differences:

Other transactions such as interest earned and paid, precept payments to Cleveland Police / Cleveland Fire Brigade / Parish Councils and trading units are not considered as part of the net cost of services and are required to be shown as separate items in the section below the service expenditure totals in the comprehensive income and expenditure statement.

A reconciliation between the management accounts and the Income & Expenditure statement is shown in note 41.

Balance Sheet

Balance Sheet at 31 March 2015

At 31 March 2014 £000		Note	At 31 March 2015 £000
	Long Term Assets		
388,293	Property, Plant & Equipment	6	415,048
27,276	Heritage Assets	9	27,382
60,707	Investment Properties	11	72,423
1,219	Intangible Assets	16	3,726
1,323	Long Term Investments	18	309
617	Long Term Debtors	19	6,652
479,435	Total Long Term Assets		525,540
	Current Assets		
11,191	Short Term Investments	20	1,002
622	Assets held for sale	17	651
2,007	Inventories	23	1,667
33,526	Short Term Debtors	24	39,148
0	Current Intangible Assets		0
14,012	Cash and Cash Equivalents	25	9,790
61,358	Total Current Assets		52,258
	Current Liabilities		
(8,423)	Short Term Borrowing	20	(3,924)
(41,294)	Short Term Creditors	26	(52,743)
(2,619)	Provisions	27	(2,506)
(52,336)	Total Current Liabilities		(59,173)
	Long Term Liabilities		
(3,164)	Provisions	27	(2,909)
(78,424)	Long Term Borrowing	20	(75,187)
(132,817)	Pension Liability	28	(175,159)
(499)	Other Long Term Liabilities		(493)
0	Capital Grants Receipts in Advance	30	0
(214,904)	Total Long Term Liabilities		(253,748)
273,553	Net Assets		264,877
	Reserves		
70,683	Usable Reserves	32	76,754
202,870	Unusable Reserves	35	188,123
273,553	Total Reserves		264,877

Movement in Reserves Statement

Movement in Reserves Statement							
	General Fund £000	Earmarked General Fund Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied Reserve £000	Total Useable Reserves £000	Unusable Reserves £000	Total Reserves £000
Movement in Reserves for the Year Ended 31 March 2015	9,633	29,971	19,492	11,587	70,683	202,870	273,553
Balance at 1 April 2014	(15,740)	0	0	0	(15,740)	0	(15,740)
Deficit on provision of services transferred to the General Fund (accounting basis).							
Other Comprehensive Income and Expenditure	0	0	0	0	0	7,674	7,674
Total Comprehensive Income and Expenditure	(15,740)	0	0	0	(15,740)	7,674	(8,066)
Adjustments between accounting basis & funding basis under regulations - note 40.	32,974	0	(6,430)	(3,778)	22,766	(22,766)	0
Increase / (Decrease) before transfer to Earmarked Reserves	17,234	0	(6,430)	(3,778)	7,026	(15,091)	(8,066)
Transfer (to) / from Earmarked Reserves - note 34.	(13,378)	12,996		(573)	(955)	344	(611)
Increase / (Decrease) in the year ended 31 March 2015	3,856	12,996	(6,430)	(4,351)	6,071	(14,747)	(8,677)
Balance at 31 March 2015	13,489	42,967	13,062	7,236	76,754	188,123	264,876

Movement in Reserves Statement

Movement in Reserves Statement							
	General Fund £000	Earmarked General Fund Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied Reserve £000	Total Useable Reserves £000	Unusable Reserves £000	Total Reserves £000
Movement in Reserves for the Year Ended 31st March 2014	6,035	25,119	16,348	16,430	63,932	196,124	260,056
Balance at 1 April 2013							
Deficit on provision of services transferred to the General Fund (accounting basis).	(33,171)	0	0	0	(33,171)	0	(33,171)
Other Comprehensive Income and Expenditure	0	0	0	0	0	46,668	46,668
Total Comprehensive Income and Expenditure	(33,171)	0	0	0	(33,171)	46,668	13,497
Adjustments between accounting basis & funding basis under regulations -note 40.	41,426	0	3,144	(4,648)	39,922	(39,922)	0
Increase / (Decrease) before transfer to Earmarked Reserves	8,255	0	3,144	(4,648)	6,751	6,746	13,497
Transfer (to) / from Earmarked Reserves -note 34.	(4,657)	4,852	0	(195)	0	0	0
Increase / (Decrease) in the year ended 31 March 2014	3,598	4,852	3,144	(4,843)	6,751	6,746	13,497
Balance at 31 March 2014	9,633	29,971	19,492	11,587	70,683	202,870	273,553

Cash Flow Statement

Cash Flow Statement for the Year ended 31 March 2015			
Year to 31 March 2014 £000		Note	Year to 31 March 2015 £000
(33,171)	Deficit on provision of services transferred to the General Fund		(15,740)
	Adjustment for items not affecting cash flow		
16,153	Depreciation of Property Plant and Equipment (PPE)	6	16,750
559	Amortisation of Intangible Assets	16	783
5,160	Impairments to PPE	6,9	1,952
912	Impairments to Assets held for sale	17	2,308
(2,025)	Fair Value losses on Investment Properties	11	(6,648)
(883)	Donated PPE and Heritage Assets	6,9	(492)
0	Donated Investment Properties	11	0
0	Impairment on Long Term Intangibles		0
0	Write down of Long Term Investments		0
29,386	NBV on Disposal of non current assets	6,9,17	35,262
1,036	Difference between Current Service Cost and Contributions made to the Pension Scheme	28	(80)
7,854	Impact of Changes to Actuarial Assumptions applied to the Pension Scheme Deficit	28	6,618
-	Release of Revenue and Grants Received in Advance (net)		0
564	Movement in Provisions		(368)
25,545	Surplus on provision of services after non cash adjustments		40,345
(4,301)	Adjustments for items that are Financing or Investing Activities		(8,347)
	Other operating Cashflows		
(444)	Cash absorbed by the reduction in creditors		6,156
5,550	Cash absorbed by the increase in debtors		(11,657)
104	Cash absorbed by the increase in inventory		340
26,454	Net cash flow from operating activities		26,837
(11,644)	Investing Activities	36	(23,323)
(12,831)	Financing Activities	37	(7,736)
1,979	Net increase /(decrease) in cash and cash equivalents		(4,222)
12,033	Cash and Cash Equivalents at the start of the period	25	14,012
14,012	Cash and Cash Equivalents at the end of the period	25	9,790

