

# Middlesbrough Council Draft Statement of Accounts 2018/19



*One Centre Square*

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The Statement of Accounts for Middlesbrough Council provides an overview of the Council's financial position at 31 March 2019 and a summary of its income and expenditure during 2018/2019. The accounts are, in parts, technical and complex as they have been prepared to comply with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) as prescribed by the Code of Practice on Local Authority Accounting in the United Kingdom, and International Financial Reporting Standards. The accounts are available on the Council's website: [www.middlesbrough.gov.uk](http://www.middlesbrough.gov.uk)

The Statement of Accounts are expected to be approved by the Council's Audit and Corporate Affairs Committee on 25 July 2019, and the Independent Auditor's Report to the Members of Middlesbrough Council will confirm whether the accounts provide a true and fair view of the Council's financial position at that time.

# 1. Narrative Report



*Albert Park Lake*

## Narrative Report

### Review of the Year

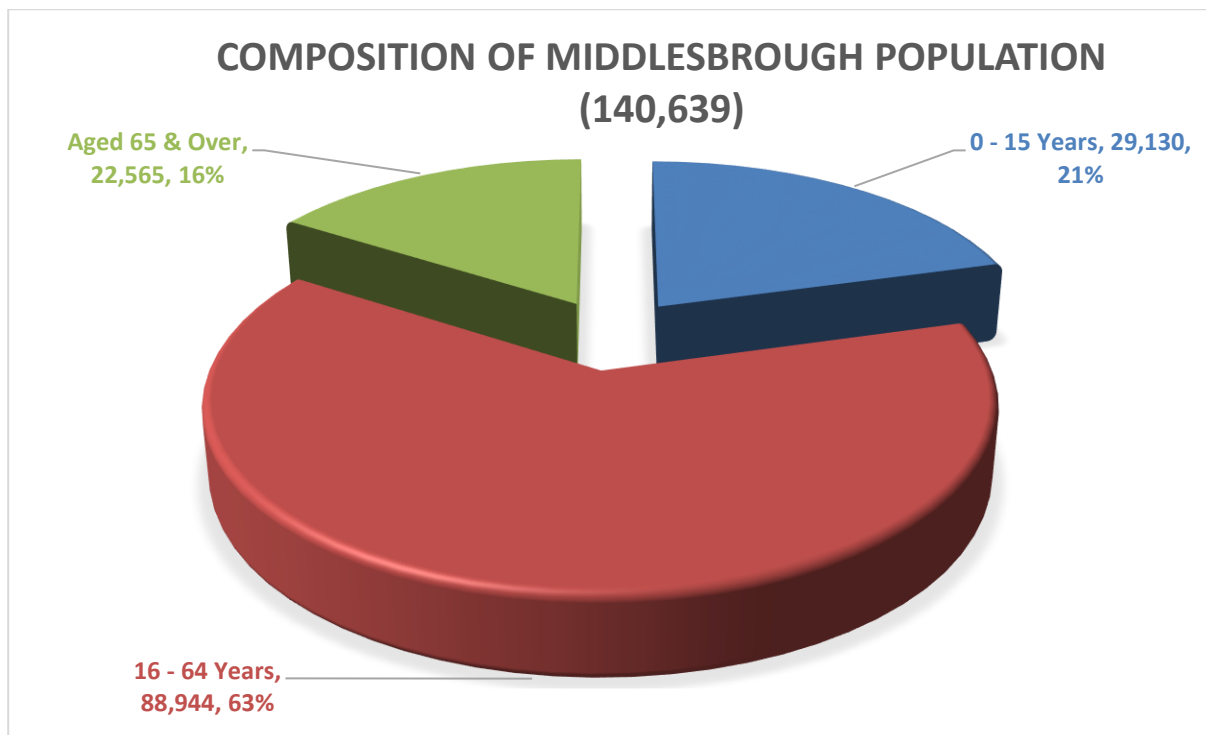
Middlesbrough Council is a large and diverse public sector organisation. The aim of this Narrative Report is to provide both guidance and context to the accounts, presenting a summary of the Council's financial position, financial performance, and non-financial activities for the year, its prospects for future years and briefly explaining the key accounting statements. A separate summary of accounts document is also available this financial year to ensure that the information in the Statement of Accounts is as accessible as possible, which is available via the Council's website

### Background to the Council

Middlesbrough Council came into existence following the abolition of Cleveland County Council in 1996. It is a unitary local authority providing a range of services to the people of Middlesbrough.

The Council works with local residents, businesses, public sector partners and the voluntary and community sector to improve local social, economic and environmental wellbeing for all and to secure the long-term sustainability of the town. It is one of the largest employers in the Tees Valley area, providing work for more than 3,500 people.

### Population and Related Economic Statistics



Source: Office of National Statistics Mid-Year Estimates 2017

The composition of the local population drives the focus of the services provided by the Council most notably through increasing demand for Children's and Adult Social Care.

Economic data from Nomis Official Labour Market Statistics for the period January 2018– December 2018 shows the following:

	<b>Middlesbrough</b>	<b>North East</b>	<b>Great Britain</b>
Gross Weekly Pay (Median)	£480.30	£511.60	£571.10
Unemployment rate (16 – 64) (as proportion of economically active)	7.4%	5.3%	4.2%

The Council's various strategies are set around meeting the needs of its citizens driven by the demographic profile of the town.

### **Political Structure in 2018/19**

The Council operated a Mayoral style of local government during the financial year led by the Mayor, Dave Budd, and supported by a small team of Executive Members. The Executive is the Council's principal decision making body, considering significant issues in connection with, for example, community safety, leisure, education, social services, highways and the environment as well as making recommendations to Council on the annual revenue budget and investment strategy. The Council had a labour led administration during 2018/19.

Meetings of the Executive took place every four weeks chaired by the Mayor with each member of the Executive having designated responsibilities (known as portfolios).

Middlesbrough Council consists of 20 wards with between one and three Councillors representing each ward. All councillors serve a maximum four-year term. The political make-up of the Council at 31 March 2019 was

Elected Members	47
Mayor David Budd (Labour)	1
Conservative	5
Independent	5
Labour	31
Middlesbrough Independent Councillors' Association	5

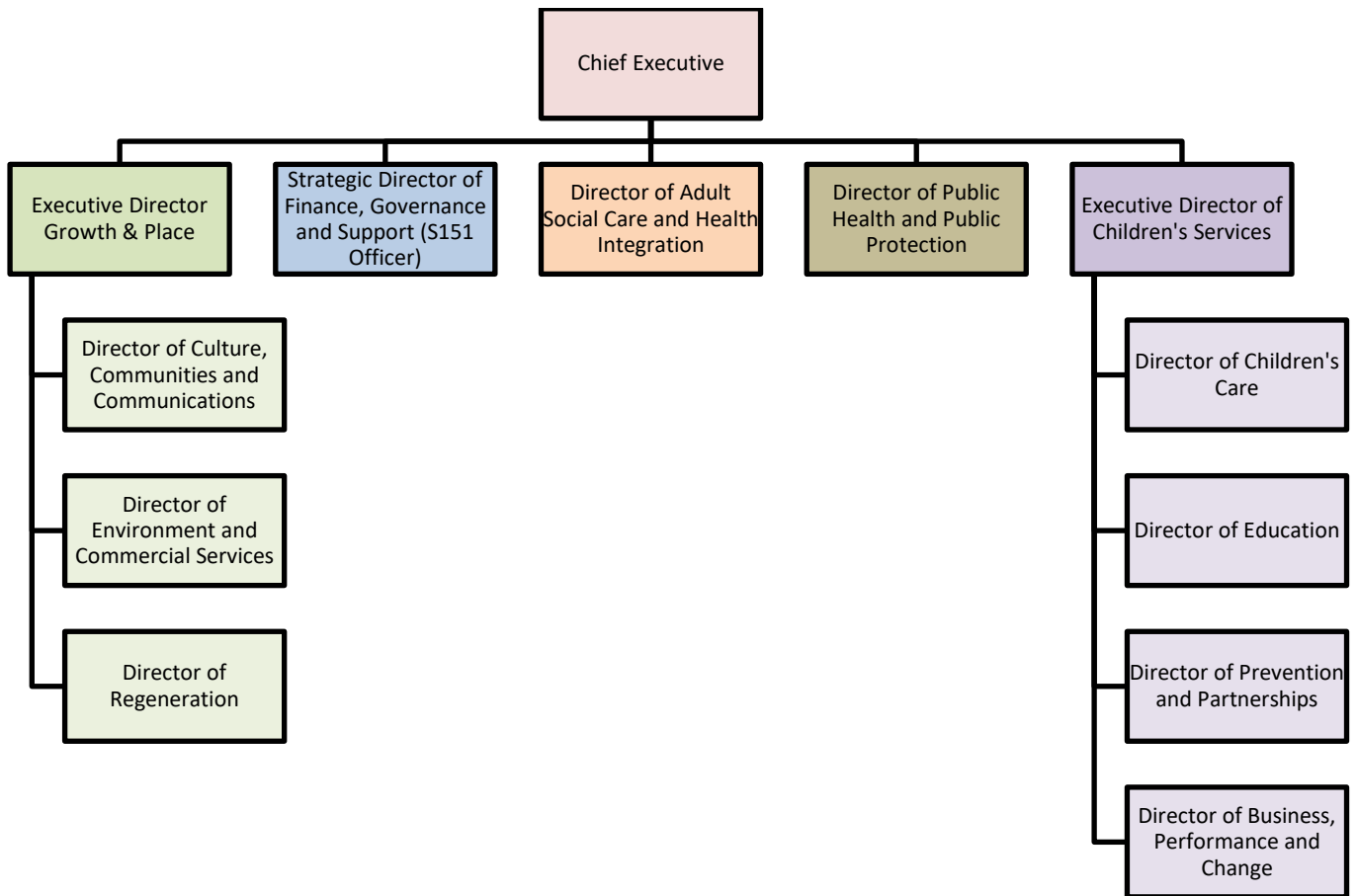
A new set of local elections were held on 2<sup>nd</sup> May 2019. This has changed the political balance and composition of the Council significantly with a new Independent Mayor of Middlesbrough elected plus initially no overall political control for any one Group.

This is the first time since creation in 1996 that the Labour Party has not held control at the Council. At the time of publishing the draft accounts, the Council is only in the very early stages of working with the new Mayor on their new political priorities and it is too early to say what strategic changes may be implemented. However, this set of accounts for 2018/19 relates to the last year of the previous administration, its policies, strategies and outcomes.

## Management Structure

### Leadership Team

The existing Leadership Team structure for the Council is set out below:



### The Mayor's Vision for Middlesbrough

Dave Budd was Middlesbrough Mayor from 2015-2019, including the period covered by these financial statements. This section refers to the Mayoral vision and priorities during the 2018/19 financial year. These set the direction for the Council's Strategic Plan and its role as community leader.

In the past year, the Council's approach to delivering the Mayor's Vision has crystallised around three strategic themes:

- **Business Imperatives** – Ensuring that the Council operates efficiently and effectively so that Physical and Social Regeneration outcomes are maximised.
- **Physical Regeneration** – Investing in Middlesbrough to provide and improve facilities, which act to increase the town's reputation, create social opportunity and improve the Council's finances.
- **Social Regeneration** – Working with our communities and other public service organisations to improve the lives of Middlesbrough's residents.

## Strategic Plan

On 28 March 2018, the Council approved the Strategic Plan for the period 2018 to 2021. This Plan is the Council's overarching business framework, outlining its contribution to the Mayor's Vision for Middlesbrough and providing a broad overview of high-level improvement activity in the medium term, within the financial parameters outlined in its Medium Term Financial Plan. The Plan is central to the Council's corporate governance framework and is updated annually. It is also the basis of the Council's performance management framework, with progress reviewed on a quarterly basis and reported to Executive and Overview and Scrutiny Board.

This latest iteration of the Strategic Plan is designed to:

- Set out clearly how the Council contributes to the Mayor's Vision and is organised around the three aims referred to previously.
- Celebrate successes and 'sell' the Council's plans for the future.
- Be more useful in communicating the above to staff, partners, residents and businesses.
- Inform a more streamlined approach to strategic performance management from 2018/19.

The Plan sets out the Council's priorities for the next four years including the following:

### ***Business Imperatives***

- Improve the financial performance of services we charge for and look for new income through our commercial strategy.
- Achieve greater value for money when buying services and managing contracts.
- Look at new ways of delivering services with local communities and a range of partners.
- Make it easier to access our services on line and by phone through our digital strategy.
- Introduce a 'unit cost' budgeting approach to our services to try and identify further efficiency savings.

### ***Physical Regeneration***

- Develop Middlehaven as an education, leisure, sports and entertainment centre of national significance.
- Improve Middlesbrough's rail connections, promote investment in the Historic Quarter to encourage business growth and continue to improve our road network.
- Build 2,300 new homes to meet the needs and ambitions of a growing population.
- Continue to grow our business base, with new commercial workspace and support for innovation sectors.
- Work with local communities to redevelop Middlesbrough's disadvantaged estates and put in place our empty homes strategy.

### ***Social Regeneration***

- Continue to strengthen the local economy, creating 3,500 new jobs and increasing the number of local services we commission.
- Take action to promote financial inclusion and reduce income inequality within the town, including improving community advice and welfare services and launching Middlesbrough's Community Bank.
- Transform children's social work and early help, to allow more families to stay together where it is safe for them to do so and reduce the need for the children to be looked after by us.
- Work to improve local health and wellbeing and reduce health inequalities within the town, focusing particularly on self-care, community-led prevention and early intervention.
- Improve the town's environment, working with local communities to make sure our roads, streets and open spaces are well-designed, clean and safe.

## Investment Strategy for Middlesbrough

An update of the Medium Term Financial Plan (MTFP) was presented to Council on 4 March 2019 the report included the £166.1 million Investment Strategy for Middlesbrough for the period to 2021/2022, supported by £105.4 million of the Council's own resources, an update of which was agreed by Council on 5 December 2018. This strategy is intended to attract a total of over £700 million of third party investment into the town and its infrastructure.

The investment will support a number of major regeneration schemes outlined in the Middlesbrough Investment Prospectus including:

- the Snow Centre development in Middlehaven;
- the development of a premier office development in Centre Square;
- Newham Grange Leisure Farm;
- East Middlesbrough Community Hub;
- Teesside Advanced Manufacturing Park;
- the development of Middlesbrough rail and road connectivity; and
- the development of new housing in the town via the newly formed Housing Delivery Vehicle MHOMES.

## Customer Strategy

The vision of the Customer Programme is to **transform delivery of our services**, providing customers **with excellent facilities** and **access to self-serve** through an extensive range of options for contacting the Council.

Our ambition is that a customer-centric culture, with self-serve facilities, improved payment access and transactional online services, will be underpinned by a simple, service led and driven website and intranet, with straight-to-the-point e-forms, all underpinned by a knowledge-based customer relationship management system, reducing the need for face to face contact. Customers will experience an overall improvement and flexibility in their choice of how to contact Council services and the drive for 'digital by design' will increase the range of Council services available as a result.

## Our Values

Our Values are a critical element of the Council's strategy to create a brighter future for Middlesbrough. Our Values are at the heart of everything we do and form the foundation for how we operate, behave and make decisions.

Our Values:

- Passionate about Middlesbrough;
- Integrity at our heart;
- Creative in our thinking;
- Collaborative in our approach; and
- Focussed on what matters.

## Performance

The Council uses a Balanced Scorecard approach to measure performance. Overall performance on the Strategic Priorities of the Council in the last financial year have resulted in 26 of the 30 priorities being classed as on target. The Council's strategic priorities are being reviewed with the new Mayor of Middlesbrough and his executive, and a revised Strategic Plan will be presented at Q2 2019-20.

Below are the results per priority for 2018/19 – G indicates indicator on target:

<b>Business Imperatives</b>	
<b>Priority</b>	
In-year financial performance relative to Council budget.	A
Improve the financial performance of services we charge for, and look for new income.	G
Achieve greater value for money when buying services and managing contracts.	G
Look at new ways of delivering our services, working with local communities & partners.	G
Through our digital strategy, make it easier to access our services online and phone.	G
Introduce a 'unit cost' budgeting approach to our services to identify further efficiency savings.	G



Make sure that our business management practices compare with those of the best-performing councils	G
Gain a greater understanding of the needs of our customers and partners, by introducing new ways of improving communications and consultation.	G
Use our people strategy to be recognised as a good employer.	G
<b>Physical Regeneration</b>	
<b>Measure</b>	
Create a Middlesbrough 'brand' to improve the town's reputation, attract new investment, visitors and residents, and add to civic pride.	G
Develop Middlehaven as an education, leisure, sports and entertainment centre of national significance.	G
Improve Middlesbrough's rail connections, promote investment in the Historic Quarter to encourage business growth and continue to improve our road network.	G
Transform our town centre to create an iconic and regional centre for media, digital creativity, learning and leisure.	G
Develop Centre Square as the Tees Valley's main office location and a major focus of cultural & leisure activity.	G
Build 2,300 new homes to meet the needs and ambitions of a growing population.	G
<b>Priority</b>	
Create more affordable housing to develop a balanced, sustainable community where people want to live.	G
Continue to grow our business base, with new commercial workspace and support for innovation sectors.	G
Work with local communities to redevelop Middlesbrough's disadvantaged estates, and to put in place our empty homes strategy.	G
<b>Social Regeneration</b>	
<b>Priority</b>	
Work with partners to involve local communities, giving them the chance to influence how Middlesbrough is being transformed and how public services are changed and improved.	G
Continue to strengthen the local economy, creating 3,500 new jobs and increasing the number of local services we commission.	G
Number of local jobs and the average weekly wage will increase, as our communities will be able to access the opportunities arising from Middlesbrough's regeneration.	A
Take action to promote financial inclusion and reduce income inequality within the town, including improving community advice and welfare services and launching Middlesbrough's Community Bank.	G
Transform children's social work and early help, to allow more families to stay together where it is safe to do so and reduce the need for children to be looked after by the Council.	R
Increase educational and vocational attainment for all children and adults.	G
Work to improve local health and wellbeing, and reduce health inequalities in the town, focusing on self-care, community-led prevention and early intervention	R
Join up health and social care, working with partners to keep children and adults healthy, avoid admissions to hospital, and improve care upon discharge.	G
Continue to promote the welfare of our children, young people and vulnerable adults and protect them from harm, abuse and neglect.	G

Improve the town's environment, working with local communities to make sure our roads, streets and open spaces are well-designed, clean and safe.	G
Work with local people to improve community life, making sure that all adults, children and young people feel safer and happier where they live, and reduce loneliness and social isolation	G
Develop a new cultural strategy for the town, investing in our museums and other cultural assets, and lead the Tees Valley's 2025 UK City of Culture bid.	G

## Governance

The Council's governance arrangements are set out in the Annual Governance Statement that accompanies the financial statements (see Section 2).

## Future Challenges/Uncertainties

### **Brexit**

With the current political uncertainty around what the Country's final exit from the European Union will look like and what implications this may hold for both central and local government, the Council continues its planning, particularly around a 'no deal' scenario with contingencies plans already developed. What this might mean in financial terms, subsequent risks and the impact on the Council's budget and medium term financial plan is currently unclear.

### **Children's Services Demand Pressures**

Demand pressures of as much as £2bn are recognised for Children's Services nationally. The introduction of the Believe in Families Transformation programme scheduled for the period 2018/19 to 2021/22 is expected to deliver savings by transforming the way children's needs are met and reducing the number of children who require care. It will mean that over time children in Middlesbrough are better provided for at a lower cost to the Council. The gross impact of the increased demand on the service in 2019/20 is estimated at £1.745 million although this will be partially mitigated by expected savings following the implementation of the Believe in Families Transformation Programme totalling £2.131 million.

### **The Local Government Finance Settlement**

The Council's Revenue Support grant is facing a £4.575 million (27%) reduction from 2018/19 to 2019/20. There is a Government expectation that any budget gap will be made up by revenue raised locally from Council Tax and Business Rates or from savings generated by the Council.

A new Local Government finance system is expected to be implemented commencing from the 2020/21 financial year following the outcome of the Fair Funding Review. The new system is intended to be based upon 75% retention of Business Rates by Local Government and an end to the Revenue Support Grant system. It is not yet clear what the detailed arrangements for Local Government Finance will look like. Also this timetable for review is very much dependent upon national developments, particularly around Brexit and what implications this might hold for the future political direction of the Country.

### **MHomes Ltd**

On 22<sup>nd</sup> February 2019, the Council set up a subsidiary company for the purposes of developing the Housing Supply and the future local housing strategy for Middlesbrough going forwards. Although the company will have working arrangements that are independent from the Council, the financial and operational control will rest solely with elected members and Council officers. Based on the company's business plan it is expected that there will be significant financial input from the Council and that there may be a need to prepare group financial statements, as well as single entity accounts, from 2019/20.

## Financial Review 2018/19

### **Revenue Budget 2018/19**

In preparing the 2018/2019 revenue budget and medium term financial plan, the following principles, consistent with budget strategies in previous years and statements made by Executive were adopted:

- to ensure that resources were directed to Council priorities in accordance with the agreed Mayor's 2025 Vision;
- to maximise the efficient, effective and economic use of resources, in conjunction with partners where appropriate;
- to keep Council Tax increases to a minimum;
- to maintain appropriate balances, central provisions and earmarked reserves;
- to ensure appropriate provisions were made for assessed liabilities;
- to make services fully accountable for their own budgets and spending, and enforce a policy of no unauthorised overspending within service areas;
- to maintain appropriate medium term budget planning and monitoring processes, ensuring known commitments are provided for and budgets are set in real terms with the effect on service delivery clearly identified;
- to ensure structural budget issues were addressed services received, in full, the impact of contractual inflationary increases (including pay awards). No inflation was provided for general supplies and services, which were expected to be met from efficiency savings;
- to ensure effective budget consultation processes were followed and
- to ensure that the impact of legislative changes were considered as part of the budget setting process.

In setting the revenue budget for 2018/19, service budget reductions totalling £7.3 million were approved by the Council on 7 March 2018 together with a 2.99% increase in Council Tax.

The revenue budget for 2018/19 was set at £111.285 million, funded as set out below:

	<b>£m</b>
Revenue Support Grant	16.534
Business Rates Top Up Payment	26.042
Local Share of Business Rates	17.363
Council Tax	51.894
Collection Fund Balance	(0.548)
<b>Total net revenue budget in 2018/19</b>	<b>111.285</b>

### ***Budget Outturn 2018/19***

The Budget Outturn was reported to Executive on 11<sup>th</sup> June 2019 and summarised the Council's outturn in respect of the revenue budget and capital programme.

#### *Revenue*

The Council's total net revenue expenditure for 2018/19 was £111.724 million, a net pressure of £439,000 against the net budget of £111.285 million. The table below summarises the position by Department/Directorate.

<b>Department / Directorate</b>	<b>Full Year Budget £'000</b>	<b>Full Year Outturn £'000</b>	<b>Over/(under) spend £'000</b>
Regeneration	4,292	4,069	(223)
Culture, Communities and Communication	6,170	6,107	(63)
Environment and Commercial Services	17,763	17,291	(472)
Public Health and Public Protection	131	(132)	(263)
Education	1,311	1,385	74
Children's Care	31,595	34,905	3,310
Prevention and Partnerships	2,763	2,778	15
Adult Social Care and Health Integration	36,792	36,812	20

Finance, Governance and Support	8,491	7,482	(1,010)
Central costs	1,977	1,027	(949)
<b>Revenue outturn</b>	<b>11,285</b>	<b>111,724</b>	<b>439</b>

The significant revenue budget issue experienced during 2018/19 was in relation to Children's Care where additional costs experienced on Looked after Children (residential placements and in-house foster carers) and Children with Disabilities ended up being £3.3m over budget. These additional costs on children's services reflect a national trend of rising demand for these services and have been factored into the Council's medium term financial plan on an ongoing basis

This over spend position was mitigated by additional savings co-ordinated across all directorates through stringent financial controls on expenditure budgets and an additional focus on income generation. The residual overspend of £0.4m has been funded from Council Reserves.

### Capital

The table below summarises the capital outturn position for 2018/19 for each directorate. Total capital expenditure of £31.507 million was achieved against a revised budget of £38.814 million.

Department / Directorate	Revised Budget £'000	Full Year Outturn £'000	Over/ (under) spend £'000
Regeneration	19,216	15,991	(3,225)
Culture, Communities and Communications	628	498	(130)
Environment and Commercial Services	9,973	8,457	(1,516)
Public Health and Public Protection	103	99	(4)
Education	2,635	2,061	(574)
Children's Care	131	85	(46)
Prevention and Partnerships	0	0	0
Adult Social Care and Health Integration	3,455	2,763	(692)
Finance, Governance and Support	2,673	1,553	(1,120)
<b>Total</b>	<b>38,814</b>	<b>31,507</b>	<b>(7,307)</b>

The spend at 81% of the revised budget reflects delays in progress on a number of major capital schemes either due to additional public consultation being required or contractual delays. As funding is available for carry forward on these schemes the associated expenditure not achieved in 2018/19 will be rolled into the subsequent financial year.

## Directorate Achievements.

### Regeneration

- Launched a Housing Delivery Vehicle (MHomes) to improve the quality and choice of housing in Middlesbrough, primarily through the provision of affordable homes
- Commenced construction of Grade A office buildings 1 & 2 in Centre Square, to stimulate the commercial property market.
- Commenced development at Tees Advanced Manufacturing Park that will provide 180,000 sq ft of high quality business floorspace
- Opened the new Middlehaven access road and dock bridge to open up further economic development opportunities
- Commenced a major road improvements at Dixons Bank / Stainton Way, to increase traffic flow and support growth

- Supported the development of over 500 new homes across the town.

## **Culture, Communities and Communications**

- Launched an ambitious Cultural Strategy for Middlesbrough and a new Cultural Partnership.
- Opened the newly refurbished town hall and established it as a high quality community facility and music venue.
- Introduced a new Place Brand for Middlesbrough and a revised destination website.
- Launched a new strategy to help people into work through support schemes, Apprenticeships and Work Experience.
- Continued the refurbishment programme for our Hubs and Libraries.

## **Environment and Commercial Services**

- The Service have worked hard to ensure that the award of Green Flag status for Parks has been maintained
- The Service have led on the redevelopment of Newham Grange Farm, which has transformed the facility into a significant visitor attraction
- The Service undertook a successful Recycling Reward scheme with 100 Residents winning £50 gift vouchers
- Design Services undertook a scheme to extend classroom provision to Holmwood School, involving two classroom together with a range of specialist finishes and fixtures
- The Service carried out further refurbishment works to the Town Hall to enhance those carried out via the HLF bid and complement the overall Civic / Cultural offer.
- Property services completed major refurbishment works at Middlesbrough Crematorium, these works have been well received by the public and further enhance what is already a well-regarded facility.

## **Public Health and Public Protection**

- Successfully transferred stop smoking service from the NHS into an in-house delivery model
- Establishment of the joint public health service with Redcar and Cleveland Borough Council
- Worked with DeFRA on improving air quality including developing a local air quality strategy

## **Children's Care**

- Continued progress on the Believe in Families transformation programme.
- An OFSTED Focused Visit on the Council's 'Front Door' in August 2018 found that the 'programme of improvement had begun to strengthen the support being provided for children.'
- Production of a Directorate Savings Plan
- Rosecroft Children's Residential Home was rated outstanding by OFSTED.
- Development of a South Tees Multi Agency Children's Hub, which will go live in June 2019.

## Prevention and Partnerships

- Middlesbrough's September Guarantee and Not in Education Employment or Training (NEET) rate for 16 and 17 year olds is better than for statistical neighbours, the North East and England averages
- Middlesbrough Children Centres are performing at good/outstanding, against the Children Centre Ofsted Framework.
- The vast majority of families who receive support from Stronger Families do not re-enter Children's Social Care, we know that 88% have not re-referred following 12 months from the case closure point (April 2018 – March 2019)
- South Tees Youth Offending Service has successfully embedded Assetplus and desistance based approaches into practice, as evidenced by the 'Good' outcome in the HMIP single inspection April 2019.
- A successful recruitment event, jointly run by Troubled Families and Department for Work and Pensions has been held and viewed as good practice by National Troubled Families Programme.

## Adult Social Care and Health Integration

- The service continues to score more highly than the England average on all included measures in the 2018/2019 Adult Social Care Outcomes Framework survey, a statutory return submitted by service users.
- The Adult Social Care Finance Team were shortlisted for the national Public Finance Innovation awards for the second year running.
- The Staying Put Agency won the national title of Home Improvement Agency of the Year.
- The number of Deprivation of Liberty Safeguards cases continued to reduce steadily and is now significantly below the average for Local Authorities in the North East.

## Finance, Governance & Support

- We achieved an unqualified Value for Money opinion from our external auditor for 2018/19, following significant improvements in the management of our projects, capital expenditure and asset disposals in recent years.
- We are continuing to modernise our working practices – 66% of employees now have the ICT to enable them to work at any location, and all staff can now access the intranet via the staff portal. Many business transactions (such as HR or finance) are now completed online.
- Over 35,000 of our customers are now using our online MyMiddlesbrough accounts to report issues and to apply and pay for services. In the past year we updated our customer strategy to ensure that maintain our focus on customer excellence
- All revenue and benefits and payroll staff previously working via a contract with Kier have now been successfully transferred into the Council. We are expecting this to drive further improvements in performance and efficiency.
- The drive to improve local procurement has continued to make progress with 38% of eligible spend now made locally.
- Following the Government's requirement to pool local authority pension funds, we have now successfully become a shareholder in the new Border to Coast Pension Partnership and have

transferred assets worth over £1bn to be managed by the Partnership.

## Annual Statement of Accounts

The Statement of Accounts is the main method of external financial reporting produced by the Council. It is a complex and technical document that comprises a number of sections and financial statements following the CIPFA Code of Practice on local authority accounting. These are as follows:

**Narrative Report** - this introductory section provides information on the format of the Statement of Accounts as well as a review of the financial position, performance and cash flows of the Council for the financial year 2018/19.

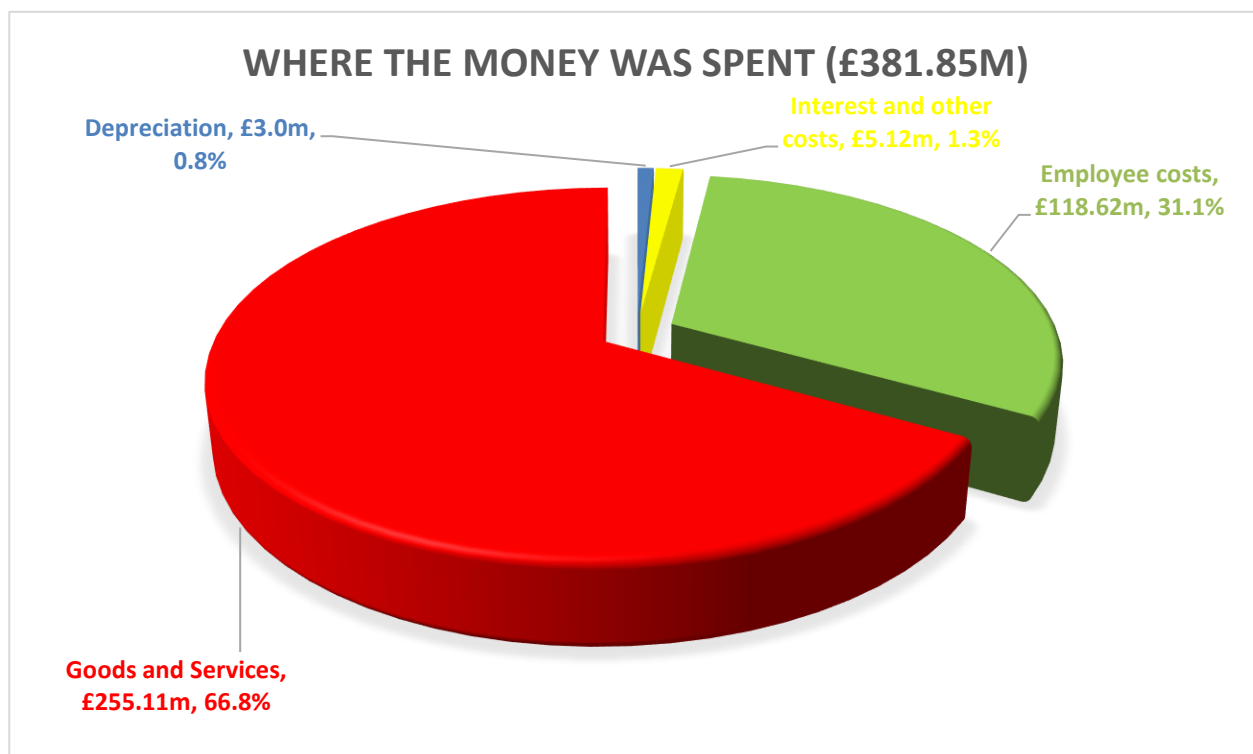
**Statement of Responsibilities** - this details the responsibilities of the Council and the Chief Finance Officer (Section 151 Officer), concerning the Council's financial affairs and the Statement of Accounts.

**Independent Auditor's Report to the Council** - the external auditor, Ernst & Young LLP have prepared this report which is included after the accounts have been audited at the end of July each year.

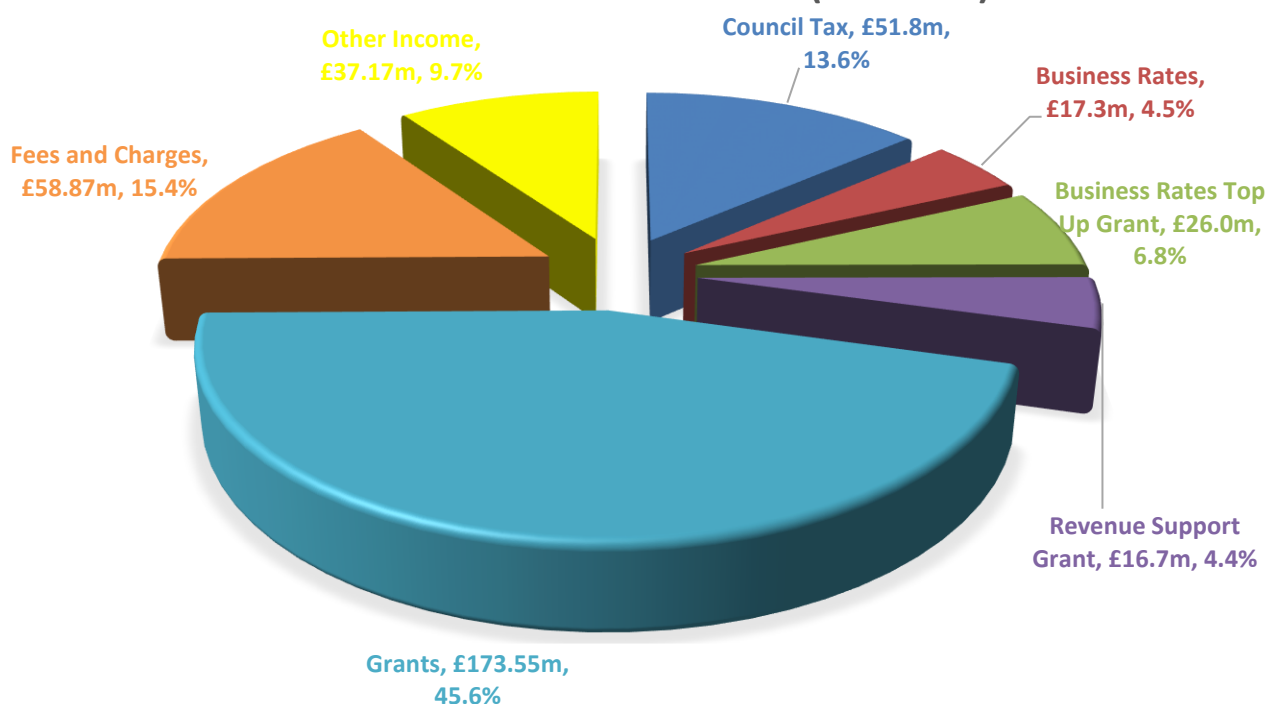
**Annual Governance Statement** - the Council is required to carry out an annual review of the effectiveness of the system of internal control and to include a status report with the Statement of Accounts. The Statement explains how the Council has complied with the Code of Corporate Governance during 2018/19 and has been published with the audited accounts.

The **Main Accounting Statements** comprise:

- The **Comprehensive Income and Expenditure Statement** – shows the income and expenditure of the Council in line with statutory regulations and CIPFA Accounting Code of Practice requirements.
- The charts below and overleaf illustrate where the money has come from and how it has been spent.
- The totals in the financial statement are higher than those set out below (expenditure by £112m and income by £25m) due to technical adjustments to comply with proper accounting practice but which are not funded by the taxpayer. More details on this are set out in the notes to the accounts.

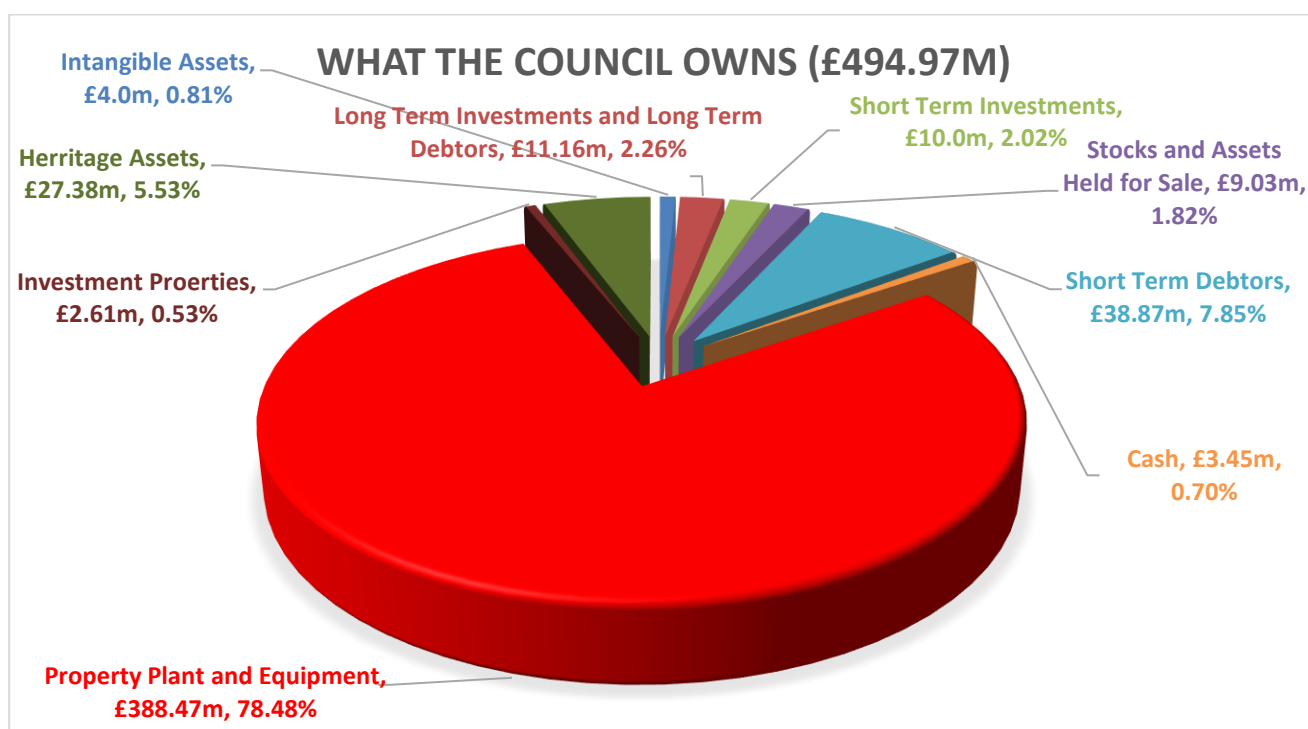


## WHERE THE MONEY CAME FROM (£381.4M)

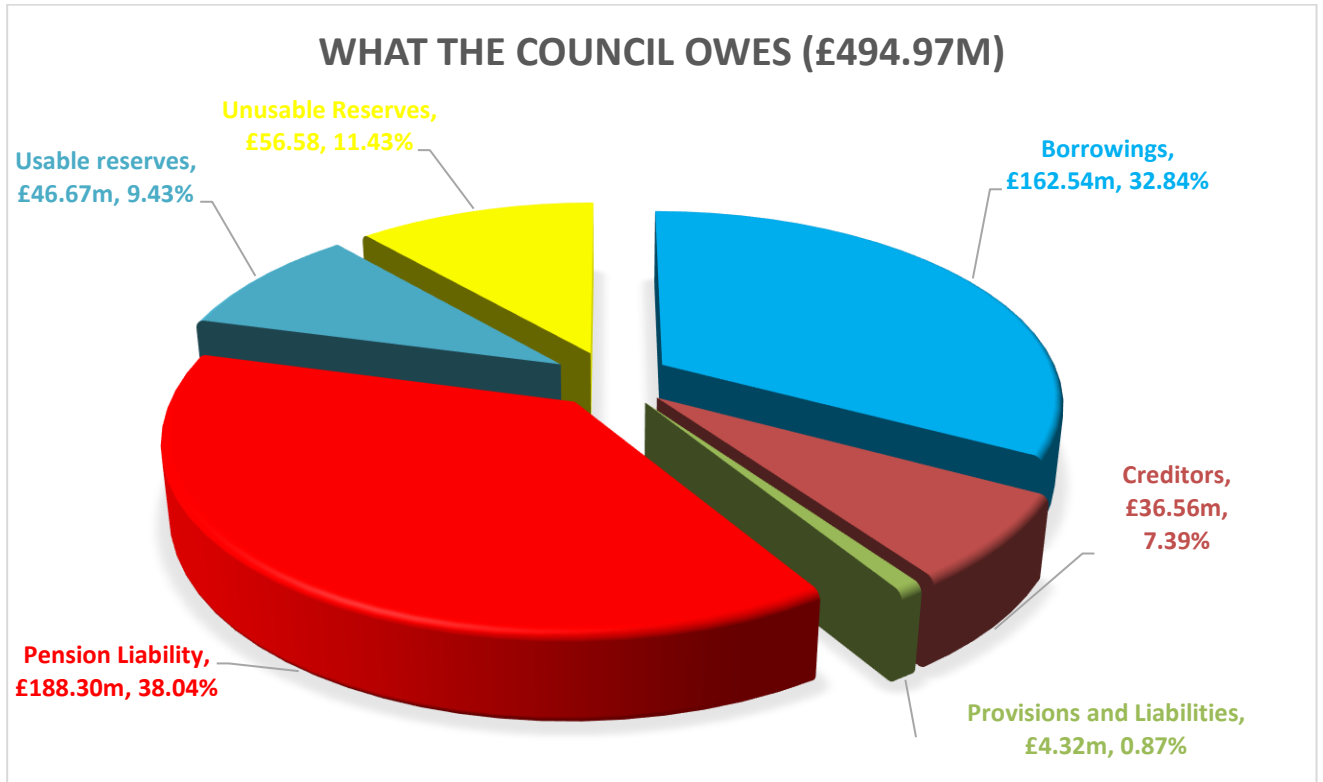


- The **Balance Sheet** – shows the value as at the Balance Sheet date of the assets owned and liabilities incurred by the Council. The total net assets (assets less liabilities) are equivalent to the revenue and capital reserves held by the Council. There has been a £59 million reduction in assets owned by the Council between 31/03/2018 and 31/03/2019. This mainly relates to schools converting to academy status which has resulted in £60 million of assets transferring out of local authority ownership.

The following charts gives summary information on what the Council owns and owes:







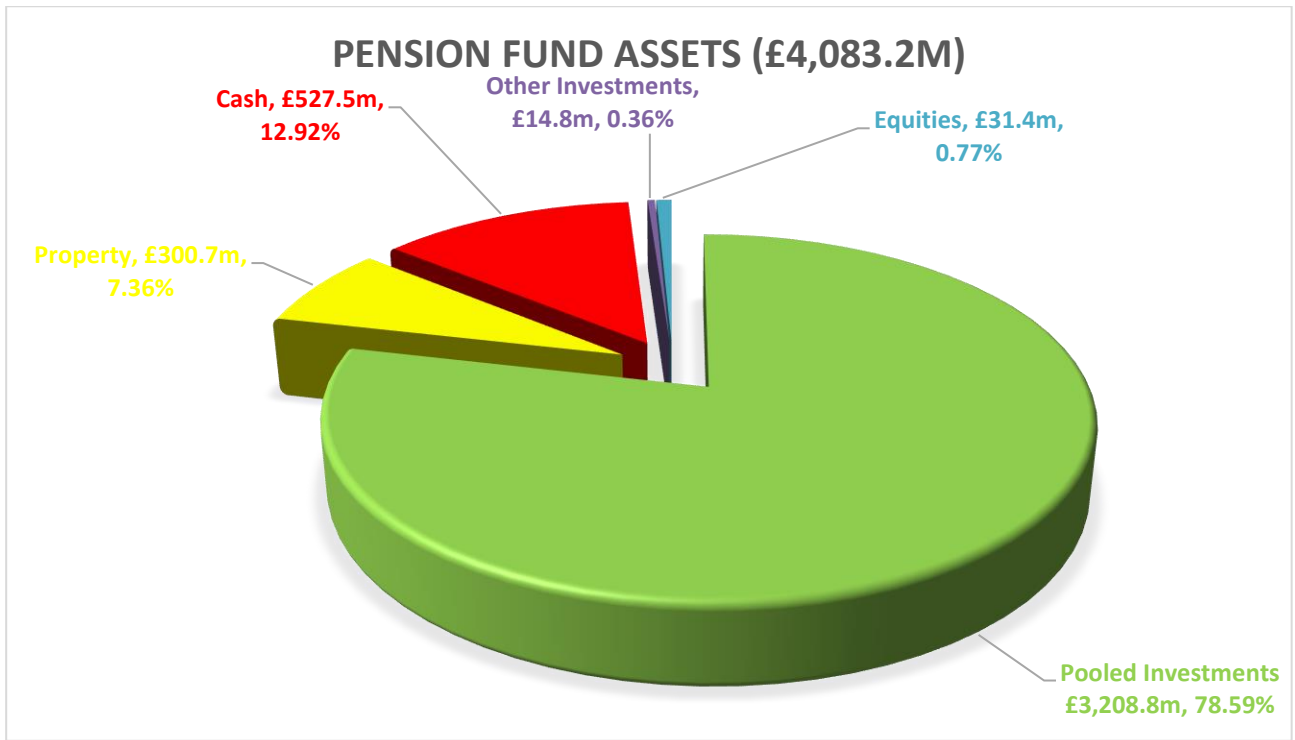
- The **Movement in Reserves Statement** - this statement shows the movement in the year on the different reserves held by the Council, split into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves (arising mainly as a result of technical and accounting adjustments).
- The **Cash Flow Statement** - this summarises the changes in cash and cash equivalents of the Council during the reporting period. Cash flows are analysed between operating, investing and financing activities.
- The **Expenditure and Funding Statement** - This analyses the Council's annual expenditure and income in the reporting format used operationally during the year together with a reconciliation to the resources consumed and earned by the Council in accordance with generally accepted accounting practice.

**Accounting Policies Note** - this note explains the basis for the recognition, measurement, and disclosure of transactions in the Accounting Statements.

**Notes to the Main Statements** - provide supporting and explanatory information as to how the accounts have been prepared and support the understanding of the accounting policies applied in the accounts to present a true and fair view of the financial position.

**Pension Fund Accounts** - the Teesside Pension Fund is administered by Middlesbrough Council, is independently managed and completely separate from the Council's own finances. This statement forms an extract from the Teesside Pension Fund Annual Report and summarises the financial position of the Pension Fund, including all income and expenditure for 2018/19, assets, and liabilities as at 31 March 2019.

The following chart summarises the assets of the Fund:



A **Glossary** - to explain the technical jargon in the Statement of Accounts and help make the document more understandable to the reader.

## Statement of Responsibilities – Middlesbrough Council

### The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to nominate that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Finance Officer (Strategic Director – Finance, Governance & Support);
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets and
- approve the statement of accounts.

### The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for the preparation of the Authority's statement of accounts in accordance with proper practices as set out in the CIPFA/ LASAAC Code of Practice on Local Authority Accounting (the Code).

In preparing the statement of accounts, the Chief Finance Officer has:

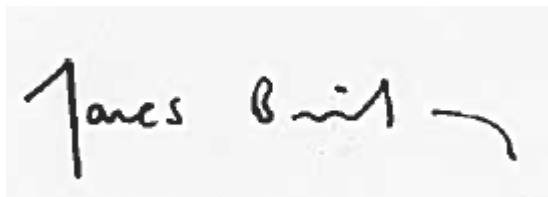
- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent and
- complied with the local authority Code.

The Chief Finance Officer has also:

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

### Certificate

I certify that the statement of accounts present a true and fair view of the financial position of the Authority at 31 March 2019 and its income and expenditure for the year ended 31 March 2019.

A handwritten signature in black ink that reads "James Bromiley" followed by a horizontal flourish.

**James Bromiley**

**Strategic Director Finance,  
Governance & Support**

**24 May 2019**

## Statement of Responsibilities – Teesside Pension Fund

### Statement of Responsibilities

#### Middlesbrough Council Responsibilities

The Council is required to:

- Make arrangements for the proper administration of the financial affairs of the Teesside Pension Fund (the Fund) through an independent Board of Trustees and relevant sub-committees;
- Secure that one of its officers has the responsibility for the administration of those affairs, namely the Strategic Director, Finance, Governance and Support (Section 151 Officer) of the Council and
- Manage the Fund to secure economic, efficient and effective use of resources and to safeguard its assets, and approve the Fund's Statement of Accounts.

#### The Strategic Director of Finance, Governance and Support Responsibilities

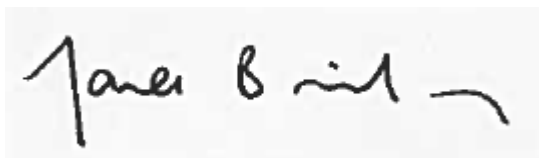
The Strategic Director of Finance, Governance and Support is responsible for the preparation of the Fund's Statement of Accounts in accordance with proper practices set out in the Accounts and Audit Regulations (England) 2015.

In preparing the Statement of Accounts, the Strategic Director of Finance, Governance and Support has:

- Selected suitable accounting policies and applied them consistently;
- Made judgements and estimates that were reasonably prudent;
- Complied with the Code;
- Kept proper accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

#### Confirmation of the Statement of Accounts

I confirm that the Teesside Pension Fund Statement of Accounts gives a true and fair view of the financial position of the Fund at 31 March 2018 and of its income and expenditure for the year then ended.



**James Bromiley**

**Strategic Director of Finance,  
Governance and Support**

**24 May 2019.**

## **Auditor's Report – Middlesbrough Council**

**Independent auditor's report to the members of Middlesbrough Council**

**Opinion on the Authority's financial statements**

Report to follow after the external audit of the accounts.

**Nicola Wright (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP, Appointed Auditor  
Newcastle upon Tyne  
31 July 2019**

## **Auditor's Report – Teesside Pension Fund**

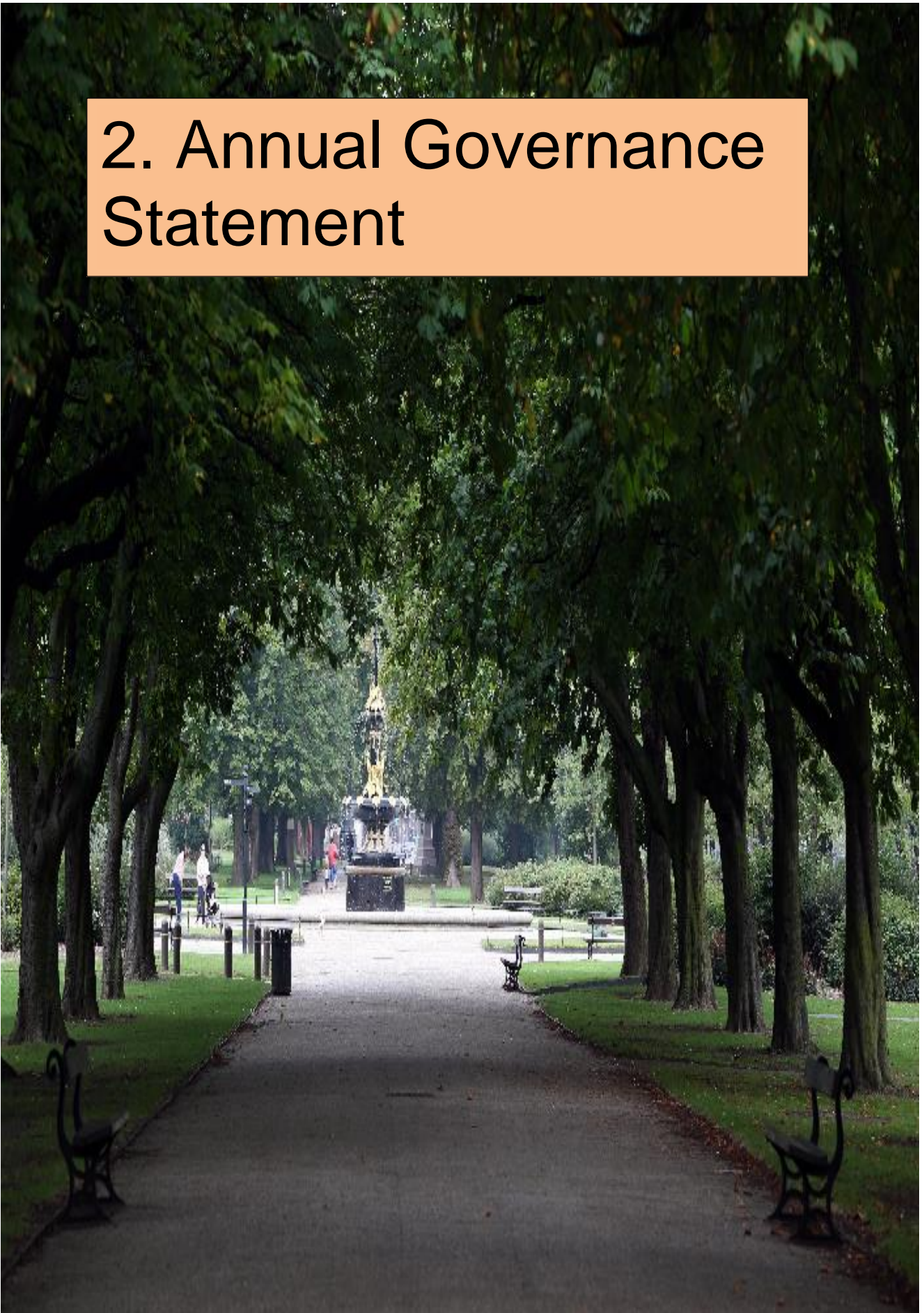
**AUDITOR'S REPORT TO A LGPS ADMINISTERING AUTHORITY  
REPORT ON PENSION FUND FINANCIAL STATEMENTS  
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDDLESBROUGH  
COUNCIL**

**Opinion**

Report to follow after the external audit of the pension fund accounts.

**Hassan Rohimun (Key Audit Partner)  
for and on behalf of Ernst & Young LLP, Appointed Auditor  
Newcastle Upon Tyne  
31 July 2018**

## 2. Annual Governance Statement



*Albert Park Fountain*

## **Draft Annual Governance Statement 2018/19**

### **Introduction**

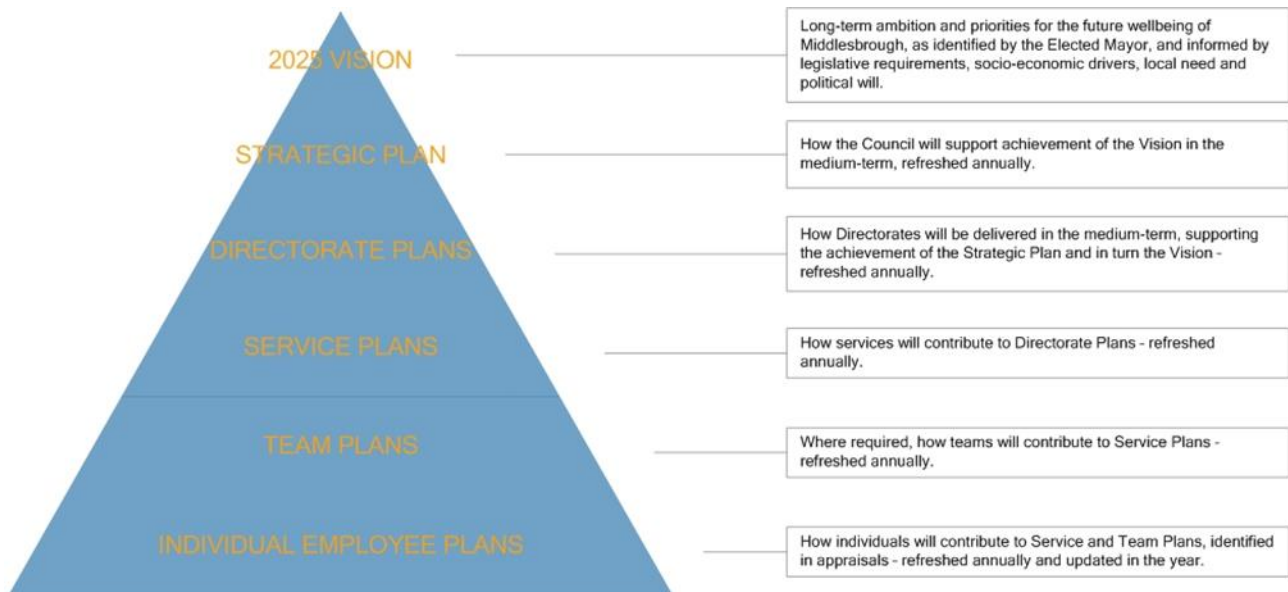
1. Middlesbrough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. The Council has in place a [Code of Corporate Governance](#), which sets out its corporate governance framework. This framework comprises the culture, values, systems and processes of the Council, which together ensure that it does the right things, at the right time and in the right way.
2. The Code of Corporate Governance aligns with the latest CIPFA / Solace guidance, which sets out the following principles of good governance:
  - behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
  - ensuring openness and comprehensive stakeholder engagement;
  - defining outcomes in terms of sustainable economic, social and environmental benefits;
  - determining the interventions necessary to optimise the achievement of the intended outcomes;
  - developing the entity's capacity, including the capability of its leadership and the individuals within it;
  - managing risks and performance through robust internal control and strong public financial management; and
  - implementing good practices in transparency, reporting, and audit to deliver effective accountability.
3. The purpose of the Annual Governance Statement (AGS) is to assess the extent to which the Council complies with its Code of Corporate Governance, how it has monitored and improved the effectiveness of its governance arrangements in the past year, and identify actions to strengthen these arrangements going forward.
4. The AGS forms part of the Statement of Accounts that the Council must produce on an annual basis and as such must be approved by the Mayor of Middlesbrough and the Council's Chief Executive and Section 151 Officer.

### **Structure of the AGS**

5. The AGS comprises the following sections:
  - an overview of the Council's governance arrangements;
  - progress made on governance during 2018/19;
  - a position statement against the Code of Corporate Governance; and
  - governance priorities for 2019/20.
6. The development of the AGS was coordinated by the Strategy, Information and Governance service, in conjunction with statutory officers and other officers with responsibility for corporate governance processes, and with input from Internal Audit.

## The Council's governance arrangements

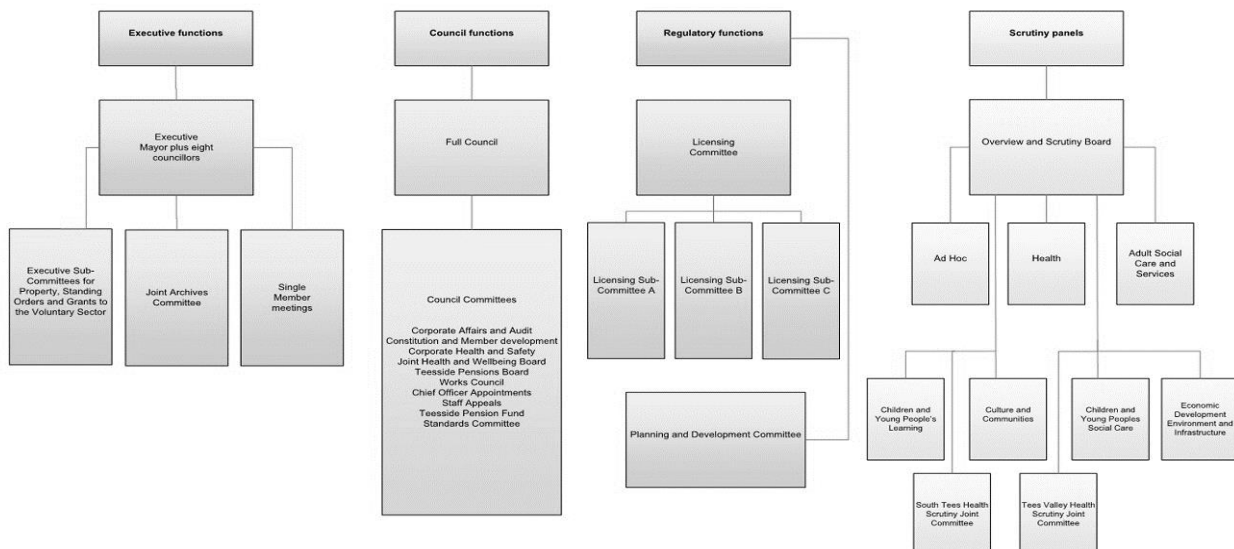
7. The strategic vision for the Council during 2018/19 was provided by the elected Mayor for Middlesbrough's [2025 Vision for Middlesbrough – Fairer, Safer, Stronger](#). The Council's contribution to the vision is articulated in its [Strategic Plan](#). There is a 'golden thread' which runs from these two documents through the rest of the Council's governance and policy frameworks.



8. During 2019/20 the new Mayor of Middlesbrough will develop and publish his vision for the town, and the Council's plans will then be aligned with this new vision.

## **Roles and responsibilities**

9. The following diagram sets out the current Committee structure of the Council. Again, this will be reviewed during 2019/20 following the May 2019 Mayoral and Council elections.



10. The Mayor and councillors are supported by a senior management structure that is designed to support effective compliance with the Council's legal responsibilities. The Council's [Constitution](#) clearly defines the roles of councillors and officers, outlines expected standards and behaviours and supports effective



working relationships across the Council. The Constitution also provides clear direction on the various roles that are in place to ensure effective corporate governance arrangements within the Council.

## **Progress made during 2018/19**

### **Implementing actions from the 2017/18 AGS**

11. The 2017/18 AGS outlined a range actions that would be taken during 2018/19 to strengthen corporate governance. Progress on these is set out below.

<b>Action</b>	<b>Responsibility</b>	<b>Progress</b>
Initiate a rolling review of the constitution by the Constitution and Member Development committee during 2018/19.	Head of Legal and Democratic Services	Completed.
Review the member induction process to ensure it is suitable for Members joining the organisation following the May 2019 local elections.	Member and Statutory Service Manager	Completed.
Continue to embed the values in everything the Council does during 2018/19 by delivering the People Strategy, but also reviewing all HR documents and processes to embed the values within these.	Head of Human Resources	Completed.
Roll out of the Contract Management framework across the Council, prioritising delivery during 2018/19.	Head of Strategic Commissioning and Procurement	In progress. All managers in Commissioning and Procurement will be utilising the system by June 2019, and it will be rolled out to contact managers in other service areas thereafter.
Ensure the Council complies with the immediate requirements of GDPR by 25 May 2018 and has plans in place to ensure full compliance within 2 years.	Head of Strategy, Information and Governance	Completed.
Refresh the Performance and Risk Management Framework to reflect the revised Strategic Plan during 2018/19.	Head of Strategy, Information and Governance	Completed.
Refresh the Customer Strategy to ensure it continues to support the Council's ambitions and customer expectations	Head of Strategy, Information and Governance	Completed.
Creation of an Information Strategy to ensure a coherent approach to Information Governance.	Head of Strategy, Information and Governance	Completed.
Implementation of a new approach to complaints including quarterly management information and lessons learnt reports.	Head of Strategy, Information and Governance	In progress. New complaints module has been implemented, with management dashboards to be launched in May 2019.
Develop a Middlesbrough guide for social value in procurement and commissioning during 2018/19.	Head of Strategic Commissioning and Procurement	Completed.
Refresh the Programme and Project Management Framework (PPMF) by March 2019 to improve consideration of social value within projects.	Head of Strategy, Information and Governance	In progress. Review of the PMF has been completed and reported to Corporate Programme Board. A preferred social value model has been identified, and will be implemented during 2019/20 alongside other changes to the framework requested by the Board.
Include a robust forecast of demand for children's and adult social care within the MTFP.	Director of Children's Care Director of Adult Social Care and Health Integration Head of Financial Planning and Support	Completed. Adult demand model was refreshed during 2019/20 and model developed for priority areas of expenditure in Children's Services.
Review the Public Health grant to ensure it continues to be appropriately used to deliver against Public Health required outcomes.	Director of Public Health and Public Protection Head of Strategic Commissioning and Procurement	Completed. Appropriate assurance is in place and Public Health England advised accordingly.

## Internal Audit during 2018/19

12. During 2018/19 Internal Audit has undertaken the following audits:

Audited System / Service	Assurance Opinion	Priority		
		P1	P2	P3
ICT Disaster Avoidance	Strong	0	0	1
ICT Strategy Measurement	Strong	0	0	0
Health & Social Care Integration (risk verification audit*)	Strong	0	0	2
Hot Topic - Investment in new IT technologies	Strong	0	0	0
Risk verification - Failure to secure funding for schools	Strong	0	0	0
Selected Landlord Licensing	Strong	0	0	0
Thorntree Primary School	Strong	0	0	3
Youth Employment Initiative	Strong	0	0	0
Members' Allowances	Strong	0	0	2
Acklam Whin Primary School	Good	0	3	3
Treasury Management	Good	0	1	0
Partnership Governance	Moderate	0	15	8
Purchasing Cards	Cause for Concern	0	6	1
Section 117/health care costs	Cause for Concern	0	6	0
Creditors	Strong	0	1	2
Hot Topic – Cyber Security	Strong	0	0	1
Investment Strategy	Strong	0	0	0
Priory Woods Primary School	Strong	0	2	2
Travel & Expenses	Strong	0	0	4
Attendance Management	Good	0	0	2
Compliance with Grievance Policy	Good	0	0	1
Debtors	Good	0	5	2
Hot Topic – GDPR Compliance	Good	0	2	0
Hot Topic – Workforce Planning	Good	0	0	0
Newham Bridge Primary School	Good	0	2	3
Project Management	Good	0	0	4
Hot Topic – Corporate Culture	Good	0	1	3
Hot Topic – Political Impact Preparation	Good	0	1	0
Land & Property Disposals	Good	0	2	0
Payroll	Good	0	3	0
Prevention & Early Help	Good	0	1	2
Asset Registers & Inventories	Moderate	0	6	8
Highways	Moderate	0	6	7
Onestop Shop	Moderate	0	6	2
Adult Social Care Payments	Moderate	0	5	5
Hot Topic – Vendor Risk	Moderate	0	3	0
Children's Services Financial Management	Cause for Concern	0	8	0
Budgetary Planning and Medium Term Financial Plan	TBC			
Contract Management	TBC			
Business World	TBC			

Audited System / Service	Assurance Opinion	Priority		
		P1	P2	P3
Main Accounting	TBC			
Capital Accounting	TBC			
Council Tax & Business Rates	TBC			
	<b>Total<sup>1</sup> :</b>	<b>0</b>	<b>37</b>	<b>68</b>

13. The opinions used by Internal Audit during 2018/19 are explained below:

- Strong – Overall, a Strong Control Environment in relation to the areas examined. Based on the audit work undertaken, an effective system of internal control is in operation and is applied consistently.
- Good – Overall, a Good Control Environment with room for improvement in relation to the areas examined. Based on the audit work undertaken, an effective system of internal control is in operation but is not always applied consistently.
- Moderate – Overall, a Moderate Control Environment with some weaknesses in relation to the areas examined. Based on the audit work undertaken, an acceptable internal control environment is in operation, but there are a number of improvements that could increase its consistency and effectiveness.
- Cause for Concern – Overall, Cause for concern in relation to the areas examined. Weak management of risk exists within a key area(s) that is/are crucial to the achievement of objectives. Major improvements need to be made to the system or area in order to ensure the control environment is effective.
- Cause for Significant Concern – Overall, Cause for Considerable Concern in relation to the areas examined. Fundamental failures exist within the control environment and the Council is exposed to unacceptable levels of risk. Key areas that are crucial to the achievement of objectives need fundamental improvements.

14. The following categories of opinion are also applied to individual recommendations agreed with management:

- Priority 1 (P1) – A fundamental risk exists to the achievement of the system/service objectives and it is of an unacceptable level. Management should initiate immediate action to address this system weakness.
- Priority 2 (P2) – A significant risk exists which has the potential to adversely affect the achievement of the system/service objectives. Management should initiate timely action to address the weakness.
- Priority 3 (P3) – System objectives are not exposed to significant risk but the issue merits attention by management as it offers service improvements by complying with best practice, and strengthening the overall control environment.

## Corporate Affairs and Audit Committee during 2018/19

15. Corporate Affairs and Audit Committee is in place to review the Council's arrangements for corporate governance and make recommendations as appropriate to ensure good governance and continuous improvement. The committee met seven times during 2018/19, and considered:

- the annual review of the Code of Corporate Governance;
- the Council's 2017/18 Statement of Accounts (including the last AGS);
- the Internal Audit Charter, its annual report for 2017/18, its plan for 2018/19, in-year progress updates, and consultation on its plan for 2019/20;
- a range of reports from the Council's External Auditor, including the Annual Audit letter, certification of claims and returns, and the year-end planning report, as well as the Audit results report;

<sup>1</sup> Further audit reports will be included in this list and reflected in the final version of this document considered by the Committee in July 2018. Audits on grey background have been finalised. Those yet to be finalised but where an indicative judgment has been reached are shown next, followed by audits conducted in 2018/19 where an opinion still needs to be reached.

\* Risk verification audits are short assignments focussed on providing confirmation that the stated controls and planned actions to mitigate a risk profile are in place and helping to mitigate the risk.

- a response from the Section 151 officer to the External Auditor's Annual Audit Letter, and the removal of the Council's past value for money qualification;
- a protocol for raising concerns with auditors;
- the annual report on anti-fraud arrangements;
- the annual report of the Senior Information Risk Owner (SIRO);
- the annual review of the Programme Management Office (PMO);
- the annual assurance report on business continuity arrangements;
- the annual assurance report on decision-making;
- the annual assurance report on health and safety arrangements;
- the annual assurance report on human resources;
- the annual assurance report on risk management;
- revisions to the Council's performance and risk management frameworks;
- presentations on plans to address risks in the Council's Strategic Risk Register, namely a reduction in health partners' ability to fund statutory and preventative services and General Data Protection Regulation (GDPR);
- a review of scrutiny arrangements;
- a review of polling stations;
- the appointment of school governors;
- updates on the estates strategy, asset disposal policy and asset disposals;
- an update on procurement and compliance with financial regulations; and
- an analysis the Best Value inspection of Northamptonshire County Council and the Council's position compared with issues identified in that authority.

## Overview and Scrutiny during 2018/19

16. The Council has an Overview and Scrutiny Board (OSB) in place, supported by a range of topic-specific panels, to scrutinise Executive decisions and the performance of Council services. During 2018/19, scrutiny considered the following items that are relevant to corporate governance:

- quarterly results (performance, finance and risk) reports;
- the new report format for committee reports;
- the Executive Forward Work Programme; and
- the Council's provisional budget and savings proposals for 2019/20 and the proposed approach for consulting on these.

17. In addition OSB has considered five call-ins during 2018/19 relating to governance concerns in respect of the following decisions:

- the future of the Southlands Centre;
- Southlands future redevelopment;
- A172 Dixons Bank / Stainton Way Highway Improvement scheme;
- the Middlesbrough Place Brand; and
- acquisition of Homes England land at Middlehaven (NB call-in triggered during 2018/19 but heard on 4 April 2019).

18. None of the decisions relating to the above were referred back to the Executive for re-consideration.

## Responding to External Auditor's recommendations

19. During 2018/19 the Council's external auditor made some recommendations in relation to financial and information governance as part of its Annual Letter for 2017/18 (reported to Corporate Audit and Affairs Committee in September 2018). The Section 151 Officer updated the committee on progress against these recommendations in February 2019. A further update is set out below.

Auditor Recommendation	Action	Progress
[In relation to asset disposal policy] Our testing of the arrangements identified one recommendation. This	We agree and will update the asset disposal policy accordingly.	Completed. The asset disposal policy has been updated to set out criteria for active and pipeline disposals.

<p>relates to establishing a clear definition of the difference between active and pipeline disposals in the Asset Disposal Policy. No other material issues were identified in our testing of this risk.</p>		
<p>We recommend that the Council introduce a standard approach to due diligence that details the minimum due diligence procedures that the Council is expected to complete, as well as who is required to review and approve the due diligence procedures that have been completed and how these are communicated as part of the formal reporting process.</p>	<p>Due diligence is an important part of any significant decision making process ensuring that the Council enters into contracts having taken reasonable care in doing so. There is no one size fits all approach to due diligence, as its can take many forms and require varying levels of detail depending on the complexity of the project. It is agreed that the nature of the due diligence carried out and risks identified will be formally reported as part of the Member decision making processes.</p>	<p>Substantively complete. Due diligence wording has been included in guidance for report writers and in advice given to them. Amendments to the Constitution will be proposed in due course to the Constitution and Members' Development Committee, to the effect that due diligence should be considered.</p>
<p>We recommend that the Council undertakes an Internal Audit of the One Stop Shop process in order to identify improvements in the controls and processes. It is our view that the performance of this review will strengthen the processes, helping to ensure that no requests go unanswered, and also providing assurance on the operation of the system.</p> <p>This review should consider:</p> <ul style="list-style-type: none"> <li>▪ Response times and how these are monitored;</li> <li>▪ Monitoring of unanswered requests; and</li> <li>▪ Processes where information is not provided and documentation of why this has occurred, ensuring an audit trail is kept.</li> </ul>	<p>Internal audit will be asked to include the audit of the one-stop shop process in the 2018/2019 workplan for that to be complete and reported on before the end of March 2019. This will allow recommendations to be considered and implemented before the 2018/2019 audit is complete.</p>	<p>Completed. The audit has been completed and finding used to inform proposals for future arrangements, to be agreed with the new Mayor of Middlesbrough and his Executive, and implemented during 2019/20.</p>
<p>We recommend that an action plan is developed to address the cultural and relationship issues that exist. It is for the parties involved to decide how they wish to proceed, however we recommend externally facilitated sessions with experts in conflict management where the concerns of both parties can be discussed and resolutions identified.</p>	<p>Council officers welcome further action to improve the trust and relationships with the small number of members where the relationship can be improved. The details of the process can be developed with those Members, however as a start it is suggested that Officers approach the leaders of each of the political groups plus the single independent Members to ask if they would like to nominate members of their groups or themselves to be involved in externally facilitated sessions. It is suggested that the Local Government Association could be that external organisation who could facilitate those sessions to help improve the trust and relationships.</p>	<p>Complete as far as possible. Officers have confirmed that all members of Leadership Management Team are willing to take part in mediation if required. The LGA have been contacted and are willing to act as mediator. Labour and Conservative parties have indicated they are willing to take part but as groups do not consider they have issues which require mediation; however an individual mediation has been held between the Chief Executive and two members.</p> <p>independent member has indicated that they have issues which need resolution. The MICA group has stated it is unwilling to take part in mediation until sanctions have been removed from one of its members. As removal of sanctions is a decision for Standards Committee, no further action on the outstanding element of this action was therefore possible in 2018/19. If necessary, the matter will be revisited during 2019/20 with the new Mayor of Middlesbrough and</p>

		<p>those councillors returned in the May 2019 elections.</p> <p>Revised arrangements in respect of the Monitoring Officer and Head of Democratic Services should help improve relationships in future.</p>
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## Other governance related events during 2018/19

20. The General Data Protection Regulation (GDPR) came into force during 2018/19. In order to ensure compliance with these regulations, the Council reviewed and revised a number of governance policies and procedures, and also delivered training to staff and members on the changes. During 2018/19 Corporate Audit and Affairs Committee also considered steps being taken to ensure compliance as the GDPR as part of its rolling review of strategic risks. The most recent internal audit of GDPR compliance resulted in a Good assurance opinion.
21. During 2018/19 the Council has continued to work regionally with partners to plan for BREXIT (in particular a 'no deal' Brexit) and the impacts this could have on the achievement of the Council's strategic objectives and its day-to-day operations. An update report on this was provided to full Council in March 2019, and members will be kept informed on progress throughout 2019/20 until BREXIT is resolved. A further report will then be brought forward to full Council on confirmed impacts and mitigation plans.
22. While it did not occur during 2018/19, the local elections held in May 2019 were a significant event. They resulted in a new independent Mayor of Middlesbrough, and the Council moved from a majority for the Labour Party to no overall control.
23. During 2019/20 officers will work with the new Mayor and councillors to ensure continued compliance with the Local Code of Corporate Governance. It is clear that some of the Mayor's priorities, for example in respect of increasing public involvement in the work of the Council, and elected members' communication and performance, will result in changes to policy and practice, and these changes will be reflected in the 2019/20 Annual Governance Statement.

## **Position statement against the Council's Code of Corporate Governance**

### **Self-assessment**

24. The Council has completed a position statement against its Code of Corporate Governance for the 2018/19 year, informed by:
  - the professional opinion of statutory and other officers with responsibility for the development and maintenance of the Council's internal control environment;
  - reports from Overview and Scrutiny, and Corporate Affairs and Audit Committee's examinations of governance processes; and
  - findings from Internal Audit's review programme, and engagement with the Council's external auditor.
25. The detailed position statement is appended to this AGS. In summary, the Council considers that it continues to demonstrate good governance in all areas. To ensure continuous improvement, a number of actions have been identified to further improve the Council's approach during 2019/20, and these are set out at the end of this statement.

### **Internal Audit opinion**

26. TVAAS undertakes its programme of work in accordance with the standards set out in the Public Sector Internal Audit Standards (PSIAS). Standard 2450 states that the Council's chief audit executive should provide an annual internal audit opinion and report on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual opinion should be supported by sufficient, reliable, relevant and useful information. The annual report should cover:
  - (a) the scope of the work undertaken and the time period to which that opinion refers;
  - (b) a summary of the audit work used to form an opinion;

- (c) the opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework;
  - (d) any qualifications to be made to the overall opinion and reasons for them,
  - (e) any issues of relevance to the Council's Annual Governance Statement;
  - (f) a statement on conformance with the PSIAS and the results of the internal audit service's quality assurance and improvement programme.
27. The overall opinion of the Audit and Assurance Manager on the controls operating in the Council during 2018/19 is that they provide an indicative judgement of **Good** Assurance. This opinion is based on the work performed by the Internal Audit team during the year 2018/19 and is subject to finalisation of outstanding work highlighted in this section.
  28. The indicative opinion of **Good** for 2018/19 considers that assurance can be obtained by the number of reports where the overall opinion is Strong or Good and the action taken to implement recommendations where cause for concern or moderate opinions have been given. No priority one actions have been raised during the year and none are outstanding from previous years. During 2018/19, Internal Audit issued three reports with a cause for concern opinion: S117 Healthcare Costs, Purchasing Cards and Children's Services Financial Management (draft). Internal Audit have advised that they do not expect any of the remaining audits still to be finalised to results in any further cause for concern judgements.
  29. Based on the audit work carried out during 2018/19, Internal Audit identified many areas where controls and governance were assessed as being strong or good and the financial control audits continue to consistently receive a high level of assurance. The number of management actions that pass their due date but remain outstanding is lower than in previous years. The main areas where control was found to be weaker during 2018/19 are outlined below.
  30. The purchasing cards audit sample testing identified control weaknesses in relation to the use of purchasing cards which needed to be addressed to strengthen the anti-fraud environment and to ensure that all purchasing cards are used in accordance with procedures. Although there were only seven recommendations included in the report, the majority were the same issues that had been reported in the audit report issued in November 2017. The continued issues included VAT recovery and the fact that 30% of the sample of card holders tested (compared with 31% in the previous audit) were not performing any checks on the validity of their card expenditure. The overall audit opinion was cause for concern and seven recommendations were made (6\*P2 and 1\*P3). Action to improve controls has since been taken by the Council and all actions agreed during the audit have been confirmed as implemented.
  31. At the time of the partnership governance audit carried out in the first half of 2018/19, the Council did not have a corporate framework in place for partnership governance or a partnership register although it was understood that it the intention was for both to be implemented. The audit examined three partnerships: the Health and Wellbeing Board (HWB), the Community Safety Partnership (CSP) and the Children's Trust Board (CTB). All three were, at the time of the audit, in a period of transition or were relatively new in their existing format. Whilst all three had defined terms of references and acceptable governance arrangements in place, there were several areas where greater clarity could be provided and governance could be further strengthened to help those partnerships achieve their aims and objectives. Although the audit noted that there was a need for the Council to consider the robustness of its current strategic approach to partnerships, it was emphasised that the Council alone cannot be responsible for effective partnership working and that an equal engagement and commitment from all partners is key to success. The audit report gave an overall opinion of Moderate Assurance and the 23 recommendations (similar actions were recommended for each partnership hence the high number) were accepted with implementation underway. Nine actions have been confirmed as implemented but the remaining are still in progress although only one of the remaining 14 actions has passed its agreed target date (as at 24 May 2019).
  32. The Section 117 / Health Care costs audit identified a lack of supporting evidence to demonstrate that the Council is obtaining the appropriate balance between value for money and promoting and protecting the welfare of the Borough's vulnerable adults. The audit opinion was based upon the results of a testing programme developed to ascertain whether the Council's administrative arrangements for S117 aftercare are fit for purpose. Testing was not performed on the actual quality of services being provided directly by the Council's social work teams, therefore, the audit did not provide a judgement on that basis. The audit included 6 P2 recommendations of which none have been confirmed by the Auditors as implemented as the due date is not until August 2019.
  33. The audit of Children's Care Financial Management highlighted the severe budgetary pressures being faced by Children's Services. Although this is a national trend and not unique to Middlesbrough; there is scope to improve existing processes in terms of implementing a future predictive cost model and ensuring

a co-ordinated monitoring approach between the 2019/20 budget, the Savings Plan, and the proposed Looked After Children Sufficiency Strategy. The Auditor identified some mitigating actions stated on the risk profile that were not in existence yet and has recommended a full review of the profile to ensure that it is an up to date and accurate assessment of how this risk is being managed. This report includes 10 P2 recommendations but the report is in draft and so may change.

34. During 2018/19 Internal Audit carried out sample testing to confirm that controls remain in place in relation to the disposal of land and property assets. This area has been a previous area of concern as noted by both the internal and external auditors. Due to the processes implemented, the external auditors removed their value for money qualification in the 2017/18 financial statements. The purpose of internal audit testing in 2018/19 was therefore to provide assurance that the controls remain in place. The draft report has now been issued with a proposed opinion of Good assurance.
35. For the previous year 2017/18, approximately 136 internal audit recommendations were made of which 128 have been closed as implemented. Only 8 actions remain outstanding (7 P2 and 1 P3) of which only three have passed their due date. For 2018/19, 93 actions have been recommended (based on final reports), of which the risk has been accepted for two actions (one within a school audit and the other within the Delivery of Short Breaks Provision audit); 34 have been implemented to date. Of the 57 that have yet to be implemented, 7 have passed their agreed target date (as at 30 April 2019).<sup>2</sup>

### External opinion

36. The Council's External Auditor will provide an audit opinion on the Council's governance arrangements that will be reflected in the final version of this Annual Governance Statement (June 2019).

### Priorities for 2019/20

37. The information above has been used to identify a number of improvement actions for 2019/20 to ensure continuous improvement in the Council's corporate governance. These are summarised in the following table.

Issue	Action	Outcome(s)	Lead officer	Deadline
Ensure the Council takes steps to identify and manage risks relating to BREXIT.	Continue to engage in local and regional planning activities to ensure the Council identifies and addresses the governance implications of BREXIT.	Plans to mitigate the impacts of BREXIT are as robust as possible.	Head of Strategy, Information and Governance	Ongoing
Ensure the new cohort of members is aware of the various governance processes they must comply with.	Deliver the member induction programme for all members and continue ongoing training around governance issues including risk and procurement.	Members understand the Council's governance processes and the role they play in good governance.	Head of Democratic Services	Induction: July 2019 Training: March 2020
Improved visibility of partnership governance arrangements.	Develop partnership governance guidance and put in place a central register of all significant partnerships.	The contribution of partnership working to the Council's strategic aims is optimised.	Head of Strategy, Information and Governance	June 2019
Ensure that members are appropriately supported in their casework and information requests.	Introduce a revised members' enquiries process.	Responses to members' enquiries are timely and comprehensive.	Head of Strategy, Information and Governance	From July 2019

<sup>2</sup> Please note that these figures will change in the final version of this statement once outstanding internal audits have been completed.



<b>Issue</b>	<b>Action</b>	<b>Outcome(s)</b>	<b>Lead officer</b>	<b>Deadline</b>
Ensure that the Vision for Middlesbrough and Strategic Plan is up to date.	Ensure that the Vision for Middlesbrough is updated to reflect the aims and priorities of the new Mayor of Middlesbrough and that the Council's Strategic Plan and its supporting plans are aligned with the new Vision.	That the Council effectively supports the delivery of the Mayor's agenda and the 'golden thread' which runs through the Council's governance and policy frameworks is maintained.	Head of Strategy, Information and Governance	July 2019
Embed social value guidance within the existing Programme and Project Management Framework.	Undertake a review of the Programme and Project Management Framework.	Ensure business cases for projects with principally non-financial benefits are considered appropriately.	Head of Strategy, Information and Governance	September 2019
Ensure compliance with procurement regulations.	Offer training on the Contract Management Framework to all contract managers by June 2019 and to all other managers during 2019/20.	More efficient and effective contract management in line with the Middlesbrough Manager model.	Head of Strategic Commissioning and Procurement	March 2020
Ensuring the constitution is kept up to date.	Continue to deliver the rolling review of the constitution by the Constitution and Member Development Committee during 2019/20.	A constitution that is up-to-date and accessible to support good governance and effective decision making.	Head of Legal Services	March 2020
Ensure the Council's scheme of delegation supports effective officer decision making.	Put in place a scheme of sub-delegations where appropriate to further improve governance around officer delegated decisions.	Improved, more timely and transparent officer decision-making.	Head of Legal Services	March 2020
Ensure managers have a robust understanding of roles and responsibilities in relation to risk management.	Delivery of masterclasses to managers on risk management, decision-making and continuous improvement.	Continuous improvement in risk management and associated disciplines.	Head of Strategy, Information and Governance	March 2020
Ensure that all agreed actions from internal audit are implemented as agreed.	Continue to review progress against agreed actions and take corrective action as necessary.	Continued improvement of the Council's internal control environment	All Heads of Service	March 2020

## Annex 1: Position statement against the Council's Code of Corporate Governance

Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Action(s) identified
<p>Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rules of law.</p> <ul style="list-style-type: none"> <li>Behaving with integrity</li> <li>Demonstrating strong commitment to ethical values</li> <li>Respecting the rule of law</li> </ul>	<ul style="list-style-type: none"> <li>Work diligently and with integrity to achieve the Elected Mayor's Vision for Middlesbrough.</li> <li>Clearly document expected behaviours, and decision-making processes, for members and officers, and regularly review these.</li> <li>Effectively communicate expected behaviours to members and officers, and provide appropriate training on ethical behaviour.</li> <li>Ensure members, statutory officers, other key post holders are able and supported to fulfil their duties and meet their responsibilities.</li> <li>Ensure compliance by maintaining effective audit committee, internal audit and scrutiny functions, and standards and disciplinary processes.</li> </ul>	<ul style="list-style-type: none"> <li>Constitution and supporting documentation clearly set out expected behaviours and decision-making processes, including member and officer relationships, codes of conduct, financial procedure rules and schemes of delegation.</li> <li>Corporate values (one of which is integrity) in place and embedded within employee recruitment and selection, induction, appraisal and development.</li> <li>Comprehensive member induction process, including ethical awareness training, and member development programme.</li> <li>Member and officer declarations of interests registers in place, and updated annually.</li> <li>Mandatory training for members on the code of conduct in place, and with all members individually signed up to the code.</li> <li>Comprehensive member handbook in place to provide guidance and signpost support, and members' enquiries service in place to assist with casework and data requests.</li> <li>Statutory officers clearly identified and appropriately supported. The Council complies with the CIPFA statement on the role of the Chief Financial Officer (2016).</li> <li>Effective audit committee, internal audit and scrutiny arrangements in place, with members trained appropriately.</li> <li>Policies in place for anti-fraud, bribery and corruption; complaints; procurement; and whistleblowing, and regularly reviewed.</li> <li>Member standards arrangements and employee disciplinary procedures in place.</li> <li>Proactive and developing approach to equality and inclusion in place, engaging staff, acting on intelligence and reporting progress.</li> </ul>	<ul style="list-style-type: none"> <li>Hold the Constitution Committee on a quarterly basis to continue delivering the rolling review of the constitution during 2019/20.</li> <li>Put in place a scheme of sub-delegations where appropriate to further improve governance around officer delegated decisions.</li> <li>Introduce a revised members' enquiries process to ensure that responses to members are both timely and comprehensive.</li> </ul>

Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Action(s) identified
<p>Ensuring openness and comprehensive stakeholder engagement.</p> <ul style="list-style-type: none"> <li>• Openness</li> <li>• Engaging comprehensively with institutional stakeholders</li> <li>• Engaging with individual citizens and service users effectively</li> </ul>	<ul style="list-style-type: none"> <li>• Document and operate a culture of openness and transparency within the organisation.</li> <li>• Maintain a culture of accountability, so that members and officers understand for what they are accountable and to who.</li> <li>• Consult appropriately with stakeholders on the development of its budget, key plans and service development.</li> <li>• Maintain effective decision making processes, ensuring that reports to decision makers clearly set out stakeholder views where relevant.</li> <li>• Publish all Executive and Committee reports and decision papers, unless there is a legitimate need to preserve confidentiality on the basis of the statutory tests.</li> <li>• Publish on its website information on the Council's strategies, plans and finances as well as on outcomes, achievements and challenges.</li> </ul>	<ul style="list-style-type: none"> <li>• Stated commitments to transparency within the Strategic Plan and supporting strategies such as the Information Strategy.</li> <li>• Constitution and supporting documentation clearly set out accountabilities and delegated authorities.</li> <li>• Biennial Residents' Survey; consultation on Strategic Plan priorities; and annual budget consultation in place.</li> <li>• Corporate consultation and impact assessment policy in place, ensuring that stakeholders (including third party providers) engaged appropriately and views considered in decision making.</li> <li>• Committee diary planner published on an annual basis, approved by members and accessible via the Council's website.</li> <li>• Executive Forward Work Programme in place, setting out planned decisions in the coming four months.</li> <li>• All public Executive and Committee agendas, papers and minutes are published via the Council's website. Officer-delegated decisions are also published.</li> <li>• Key strategies and plans are clearly published on the Council's website, and regularly updated.</li> <li>• Information on performance and expenditure sent to all households annually as part of Council Tax billing.</li> <li>• The Council complies with Open Data requirements, publishing statutorily required and other datasets such as the Freedom of Information Act publication scheme on its website.</li> <li>• Plans with the digital and marketing and communications strategies to advance in the current approach in future years.</li> </ul>	<ul style="list-style-type: none"> <li>• Put in place a scheme of sub-delegations where appropriate to further improve governance around officer delegated decision.</li> <li>• Provide masterclasses to key officers on key governance issues around decision-making including use of confidentiality and exemptions, forward work programme publication requirements and use of urgent reports.</li> </ul>

Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Action(s) identified
<p>Defining outcomes in terms of sustainable economic, social and environmental benefits.</p> <ul style="list-style-type: none"> <li>Defining outcomes</li> <li>Sustainable economic, social and environmental benefits</li> </ul>	<ul style="list-style-type: none"> <li>Clearly set out its contribution to delivery of the Vision for Middlesbrough, and use this as the basis for its overall strategy, planning and other decisions.</li> <li>Define outcomes through robust consideration of appropriate evidence bases, such as the Joint Strategic Needs Assessment.</li> <li>Ensure that it delivers defined outcomes on a sustainable basis within available resources.</li> <li>Effectively identify and manage risks to the achievement of targeted outcomes.</li> <li>Manage customer expectations effectively when determining priorities to make best use of resources, and ensure fair access to services.</li> </ul>	<ul style="list-style-type: none"> <li>Strategic Plan and Directorate Delivery Plans clearly outline how the Council plans to deliver the Vision for Middlesbrough, including key measures of success.</li> <li>Vision and Strategic Plan are part of the Council's policy framework – reports to decision makers set out how recommendations would impact on strategic objectives if approved.</li> <li>Joint Strategic Needs Assessment and supporting assessments in place and regularly updated – the children and young people's assessment was refreshed during 2017/18. Market position statements use needs assessments to inform commissioning priorities.</li> <li>Corporate planning cycle considers targeted outcomes and annual budgeting over the medium-term within the context of the Council's Medium-Term Financial Plan and capital Investment Strategy.</li> <li>Performance, Risk and Programme and Project Management frameworks provide for regularly tracking of progress and addressing issues and risks, with reporting to members and senior managers as appropriate.</li> <li>Biennial Residents' Survey; consultation on Strategic Plan priorities; and annual budget consultation in place.</li> <li>Customer Strategy and Charter in place, identifying what customers can expect from the Council, alongside specific service eligibility criteria.</li> </ul>	<ul style="list-style-type: none"> <li>Ensure that the Vision for Middlesbrough is updated to reflect the aims and priorities of the new Mayor of Middlesbrough and that the Council's Strategic Plan and its supporting plans are aligned with the new Vision.</li> </ul>

Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Action(s) identified
<p>Determining the interventions necessary to optimise the achievement of the intended outcomes.</p> <ul style="list-style-type: none"> <li>• Determining interventions</li> <li>• Planning interventions</li> <li>• Optimising achievement of intended outcomes</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure reports to decision makers on services are fair, balanced, and analyse options and the risks associated with those options, to ensure Best Value is achieved.</li> <li>• Ensure that external and internal stakeholders are engaged with when the Council is determining how services should be planned and delivered, and the outcome of consultations is considered when decisions are made.</li> <li>• Ensure achievement of social value through service planning and commissioning.</li> <li>• Ensure that it has clear and robust planning and control cycles for its strategic and operational plans, priorities and targets.</li> <li>• Determine appropriate KPIs to demonstrate service and project performance, and provide members and senior managers with timely updates on these.</li> <li>• Ensure medium and long term resource planning is realistic, sustainable and inclusive.</li> <li>• Prepare budgets that are aligned to the strategic objectives of the organisation and its MTFP.</li> </ul>	<ul style="list-style-type: none"> <li>• Reports to decision makers developed using a standard format to ensure effective, fair, and evidence-based decision making.</li> <li>• Corporate consultation and impact assessment policy in place, ensuring that stakeholders engaged appropriately and views considered in decision making.</li> <li>• Strategic procurement strategy in place, and refreshed during 2017/18. Contract management framework now also in place.</li> <li>• 'How to do Business with Middlesbrough Council' guidance for providers in place.</li> <li>• Guide to social value in procurement and commissioning in place.</li> <li>• Annual reports to audit committee on disposals on the grounds of social value provided where appropriate.</li> <li>• Corporate planning cycle considers targeted outcomes and annual budgeting over the medium-term within the context of the Council's Medium-Term Financial Plan and capital Investment Strategy.</li> <li>• Performance, Risk and Programme and Project Management frameworks provide for regularly tracking of progress against KPIs and addressing issues and risks, with reporting to members and senior managers as appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>• Put in place a scheme of sub-delegations where appropriate to further improve governance around officer delegated decision.</li> <li>• Offer training on the Contract Management Framework to all contract managers by June 2019 and to all other managers during 2019/20.</li> </ul>

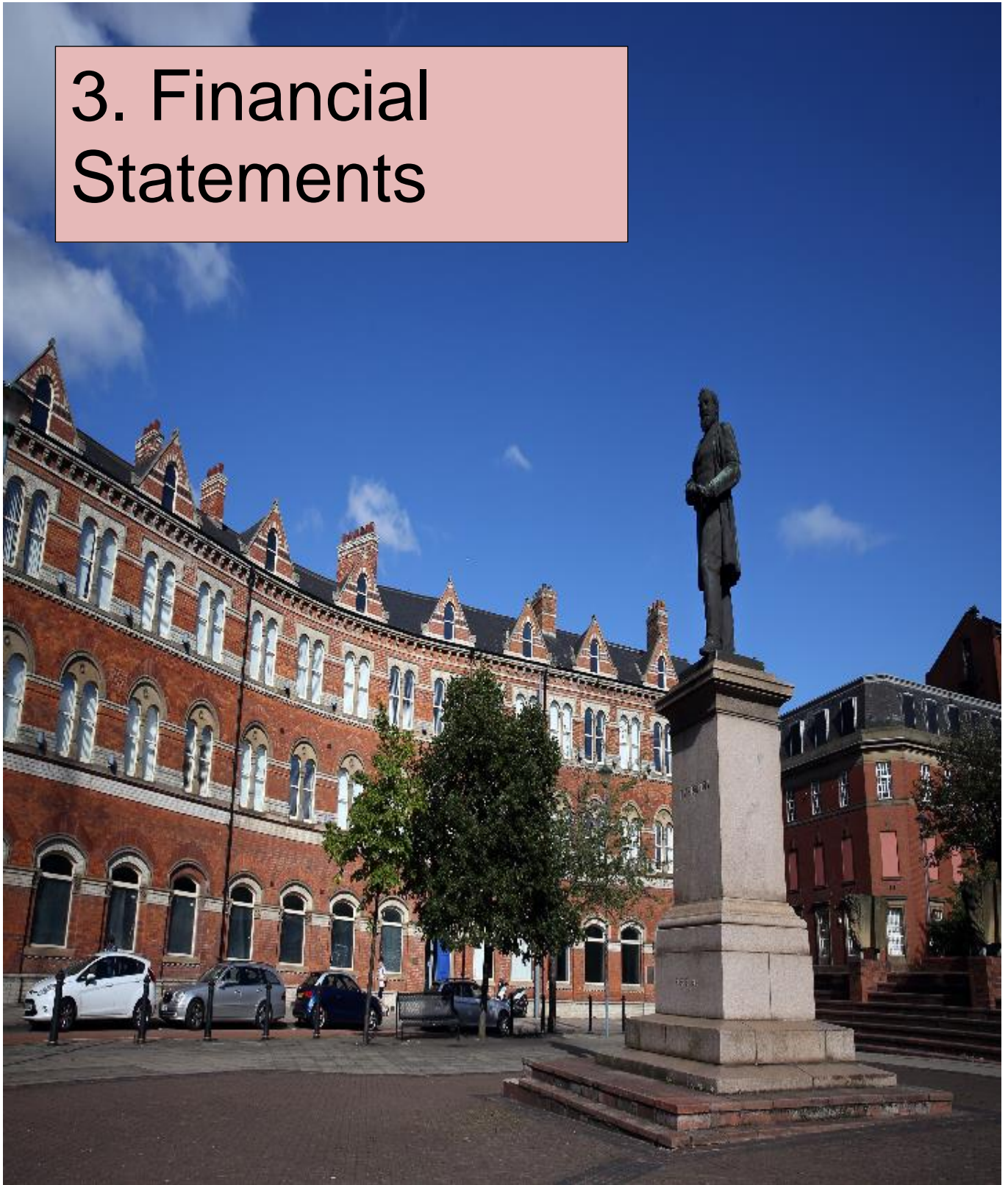
Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Action(s) identified
<p>Developing the Council's capacity, including the capability of its leadership and the individuals within it.</p> <ul style="list-style-type: none"> <li>Developing the Council's capacity</li> <li>Developing the capability of the Council's leadership and other individuals</li> </ul>	<ul style="list-style-type: none"> <li>Regularly review operations to ensure that it is continuing to deliver services that are effective, including the use of benchmarking and sectoral research.</li> <li>Work collaboratively and in partnerships where added value can be achieved.</li> <li>Maintain an effective approach to organisational development to ensure continued capacity and capability to deliver.</li> <li>Clearly define roles, responsibilities and terms of engagement for members and employees.</li> <li>Maintain and regularly review its schemes of delegations that outline the types of decisions that are delegated and those that are reserved for collective decision-making.</li> <li>Develop the capabilities of members and senior management to achieve effective shared leadership.</li> <li>Ensure there are appropriate structures in place to encourage public participation.</li> <li>Ensure that systems are in place to ensure that members and staff can be both held to account for performance, and supported as appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>Performance management framework provides for quarterly review of corporate performance.</li> <li>Directorates review performance internally on a more frequent basis. Business intelligence dashboards are being implemented to facilitate this.</li> <li>Range of benchmarking and other tools are used within Directorates to contextual performance and drive improvement.</li> <li>Horizon scanning is undertaken by LMT on a bi-annual basis, aligned with consideration of risk.</li> <li>Wider Leadership Management Team in place to enable broader consideration of key policy issues.</li> <li>Key strategic partnerships in place, such as the South Tees Health and Wellbeing Board.</li> <li>People Strategy clearly outlines corporate approach to organisational development, including workforce analysis and succession planning.</li> <li>Constitution and supporting documentation clearly set out member and officer role profiles, relationship protocol and schemes of delegation.</li> <li>Corporate consultation policy, citizen's panel and online consultation portal in place.</li> <li>Plans with the digital and marketing and communications strategies to advance in the current approach in future years.</li> <li>Processes in place for public involvement in determining scrutiny priorities, for the public to petition Council and to register questions to be considered by full Council.</li> <li>Clear employee appraisal and development process and member development programme in place.</li> </ul>	<ul style="list-style-type: none"> <li>Put in place a scheme of sub-delegations where appropriate to further improve governance around officer delegated decision.</li> <li>Deliver the member induction programme for all Members to support their understanding of the governance processes of the organisation.</li> </ul>

Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Action(s) identified
<p>Managing risks and performance through robust internal control and strong public financial management.</p> <ul style="list-style-type: none"> <li>Managing risk</li> <li>Managing performance</li> <li>Robust internal control</li> <li>Managing data</li> <li>Strong public financial management</li> </ul>	<ul style="list-style-type: none"> <li>Embed a proportionate approach to risk management within all activities, ensure that progress is reviewed regularly and that risk is considered as part of decision making.</li> <li>Ensure effective performance management of service delivery, and provide members and senior managers with timely updates on service performance and progress towards outcomes.</li> <li>Ensure reports to decision makers on services are fair, balanced, and analyse options and the risks associated with those options, to ensure Best Value is achieved.</li> <li>Ensure effective, member-led scrutiny is in place that provides constructive challenge and debate on objectives and policies before, during and after decisions are taken.</li> <li>Ensure an effective, risk-led Internal Audit service is in place to provide assurance on the overall adequacy and effectiveness of the Council's governance arrangements.</li> <li>Ensure effective counter fraud and anti-corruption policies and arrangements are in place.</li> <li>Ensure effective internal control arrangements exist for sound financial management.</li> <li>Maintain an effective audit committee function.</li> <li>Ensure effective arrangements are in place to collect, store, use and share data, including processes to safeguard personal data.</li> <li>Put in place arrangements to ensure that data used to support decision-making is accurate and clear.</li> <li>Ensure financial management arrangements support both long term outcome delivery and day-to-day operations.</li> </ul>	<ul style="list-style-type: none"> <li>Performance, Risk and Programme and Project Management frameworks provide for regularly tracking of progress and addressing issues and risks, with reporting to members and senior managers as appropriate. Risk is a standard section in reports to decision makers.</li> <li>Reports to decision makers developed using a standard format to ensure effective, fair, and evidence-based decision making.</li> <li>Wide-ranging annual scrutiny programme in place, examining policy and performance.</li> <li>Urgent decision process and records in place and reported to Council annually.</li> <li>Effective internal audit arrangement in place, utilising the Council's plans and risk registers to identify priorities.</li> <li>Policy in place for anti-fraud, bribery and corruption; complaints; procurement; and whistleblowing, and regularly reviewed. Money Laundering Policy, reviewed by audit committee during 2017/18.</li> <li>Effective audit committee in place clear terms of reference and a full and trained membership.</li> <li>Information Strategy in place to provide systematic approach to information governance, including data protection and data quality.</li> <li>Robust financial management procedures in place relating to medium-term financial planning, budget setting, procurement and contract management.</li> <li>Internal audit opinion is that overall the Council has a good overall control environment.</li> </ul>	<ul style="list-style-type: none"> <li>Put in place a scheme of sub-delegations where appropriate to further improve governance around officer delegated decision. <ul style="list-style-type: none"> <li>Delivery of masterclasses to managers on risk managers, decision-making and continuous improvement.</li> </ul> </li> <li>Hold the constitution committee on a quarterly basis to continue delivering the rolling review of the constitution during 2019/20.</li> <li>Offer training on the Contract Management Framework to all contract managers by June 2019 and to all other managers during 2019/20.</li> </ul>

Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Action(s) identified
<p>Implementing good practices in transparency, reporting, and audit to deliver effective accountability.</p> <ul style="list-style-type: none"> <li>• Implementing good practice in transparency</li> <li>• Implementing good practices in reporting</li> <li>• Assurance and effective accountability</li> </ul>	<ul style="list-style-type: none"> <li>• Provide reports in plain English wherever possible, ensuring that they are easy to access and interrogate and balancing transparency requirements with clarity.</li> <li>• Report regularly on performance, delivery of value for money and stewardship of resources.</li> <li>• Report on compliance with good governance principles within its Annual Governance Statement, including an action plan for continued improvement.</li> <li>• Ensure compliance with good governance principles extends to its partnership arrangements.</li> <li>• Ensure that recommendations made by external audit are addressed.</li> <li>• Ensure that the internal audit service has direct access to members to enable it to provide assurance with regard to governance arrangements.</li> <li>• Welcome and positively engage with peer challenges, reviews and inspections of its services.</li> </ul>	<ul style="list-style-type: none"> <li>• Standard template for reports to decision makers designed to advance proposition logically and simply, and reduce duplication of information. Training for report writers ongoing, including expectations around use of plain English.</li> <li>• Quarterly results reports to Executive and scrutiny covering performance, financial and risk updates.</li> <li>• Annual Governance Statement complying with the standard set out in the Local Code of Corporate Governance.</li> <li>• Governance arrangements in place for key strategic partnerships, such as the South Tees Health and Wellbeing Board, with improvement activity underway.</li> <li>• Recommendations made by external audit are addressed as a matter of priority through the most appropriate route.</li> <li>• Internal audit reports its plans, progress and findings regularly to the audit committee. Agreed actions from internal audit are tracked by DMTs until completion.</li> <li>• Council proactively seeks peer challenge, publishing findings and responses and commissioning follow-ups. There are positive relationships with statutory inspectorates and regulators.</li> </ul>	<ul style="list-style-type: none"> <li>• Hold the constitution committee on a quarterly basis to continue delivering the rolling review of the constitution during 2019/20.</li> <li>• Put in place a register of all significant partnerships.</li> </ul>



# 3. Financial Statements



Exchange Square

## Core Statements - Movement in Reserves Statement

This Statement shows the movement in the different reserves held by the Council over the financial year. These reserves can be analysed into usable reserves, those that can be applied to fund expenditure or to reduce taxation, and other unusable reserves, held for accounting purposes.

2018/19	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000
<b>Balance at 1 April 2018</b>	(41,473)	(2)	(7,941)	(49,416)	(105,009)	(154,426)
<b>Movement in reserves during 2018/19</b>						
Total Comprehensive Income and Expenditure	87,374	0	0	87,374	(36,198)	51,176
Adjustments between accounting basis & funding basis under regulation (note 6)	(79,329)	(75)	(5,219)	(84,623)	84,623	0
Transfers to/(from) other reserves	0	0	0	0	0	0
<b>Net Decrease in year</b>	<b>8,044</b>	<b>(75)</b>	<b>(5,219)</b>	<b>2,750</b>	<b>48,424</b>	<b>51,176</b>
<b>Balance at 31 March 2019 carried forward</b>	<b>(33,429)</b>	<b>(77)</b>	<b>(13,160)</b>	<b>(46,666)</b>	<b>(56,585)</b>	<b>(103,251)</b>

General Fund Analysis	£000
Amounts Earmarked (note 7)	(21,525)
Amounts uncommitted	(11,904)
<b>Total General Fund Balance</b>	<b>(33,429)</b>

2017/18	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000
<b>Balance at 1 April 2017</b>	<b>(41,732)</b>	<b>(3,396)</b>	<b>(9,491)</b>	<b>(54,619)</b>	<b>(106,080)</b>	<b>(160,699)</b>
<b>Movement in reserves during 2017/18</b>						
Total Comprehensive Income and Expenditure	31,342	0	0	<b>31,342</b>	(25,068)	<b>6,274</b>
Adjustments between accounting basis & funding basis under regulation (note 6)	(31,083)	3,394	1,550	<b>(26,139)</b>	26,139	<b>0</b>
Transfers to/(from) other reserves	0	0	0	<b>0</b>	0	<b>0</b>
<b>Net (Increase) / Decrease in year</b>	<b>258</b>	<b>3,394</b>	<b>1,550</b>	<b>5,203</b>	<b>1,071</b>	<b>6,274</b>
<b>Balance at 31 March 2018 carried forward</b>	<b>(41,473)</b>	<b>(2)</b>	<b>(7,941)</b>	<b>(49,416)</b>	<b>(105,009)</b>	<b>(154,426)</b>

<b>General Fund Analysis</b>	<b>£000</b>
Amounts Earmarked (note 7)	(26,321)
Amounts uncommitted	(15,152)
<b>Total General Fund Balance</b>	<b>(41,473)</b>

## Core Statements - Comprehensive Income and Expenditure Statement

This Statement brings together both income and expenditure relating to all of the Council's day to day services for the year and also shows how this is financed from a combination of local taxation, government grants and other income. This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practice, rather than the amount to be funded by taxation.

Comprehensive Income and Expenditure Statement for the Year Ended 31 March 2019							
*Restated 2017/18			2018/19				
Gross Expenditure	Gross Income	Net Expenditure (Income)	Cost of Services by Service Area	Note	Gross Expenditure	Gross Income	Net Expenditure / (Income)
£000	£000	£000			£000	£000	£000
23,951	(4,684)	19,267	Regeneration		21,200	(4,336)	16,864
15,442	(6,796)	8,646	Culture, Communities and Communication		18,593	(7,505)	11,088
17,367	(19,356)	(1,989)	Public Health and Public Protection		16,831	(19,364)	(2,533)
78,002	(74,863)	3,139	Education		69,776	(67,503)	2,273
35,793	(1,006)	34,787	Children's Care		38,994	(1,080)	37,914
72,611	(34,987)	37,624	Adult Social Care and Health Integration		79,631	(42,405)	37,226
48,556	(13,250)	35,306	Environment and Commercial Services		38,448	(3,111)	35,337
103,803	(85,523)	18,280	Finance, Governance & Support		101,099	(84,069)	17,030
5,142	(2,598)	2,544	Prevention and Partnerships		6,732	(2,430)	4,302
764	(7,456)	(6,692)	Central Costs		198	(3,185)	(2,987)
<b>401,431</b>	<b>(250,519)</b>	<b>150,912</b>	<b>Total Cost of Service</b>		<b>391,502</b>	<b>(234,988)</b>	<b>156,514</b>
9,944	(2,181)	7,763	Other Operating Income and Expenditure	8	62,661	(4,467)	58,194
38,862	(30,611)	8,251	Financing & Investment Activities	9	39,599	(30,951)	8,648
0	(135,584)	(135,584)	Taxation and Non Specific Grant Income	10	0	(135,982)	(135,982)
<b>450,237</b>	<b>(418,895)</b>	<b>31,342</b>	<b>(Surplus) or Deficit on Provision of Services</b>		<b>493,762</b>	<b>(406,388)</b>	<b>87,374</b>
			<i>Items that will not be re-classified to the Surplus or Deficit on the Provision of Service</i>				
		(14,774)	(Surplus) on revaluation of Property Plant and Equipment Assets	21, 22			(6,563)
		(3,176)	Actuarial (Gains) on Pension Fund charged to the Pensions Reserve	40			(25,410)
		(7,118)	Depreciation written out to the Revaluation reserve	22			(4,225)
		<b>(25,068)</b>	<b>Other Comprehensive Income and Expenditure</b>				<b>(36,198)</b>
		<b>6,274</b>	<b>Total Comprehensive Income and Expenditure</b>				<b>51,176</b>

## Core Statements - Balance Sheet

The Balance Sheet shows the value of assets and liabilities held by the Council. The net assets are matched by the Council's revenue and capital reserves.

31 March 2018		Note	31 March 2019
£000			£000
449,603	Property, Plant & Equipment	22	388,464
27,382	Heritage Assets	23	27,382
2,546	Investment Property	24	2,610
4,962	Intangible Assets	32	3,987
309	Long Term Investments	25	309
985	Long Term Assets Held for Sale	33	0
8,110	Long Term Debtors	34	10,884
<b>493,897</b>	<b>Total Long Term Assets</b>		<b>433,636</b>
11,000	Short Term Investments	25	10,000
0	Short Term Assets Held for Sale	33	6,700
2,121	Inventories	36	2,316
37,888	Short Term Debtors	34	38,867
9,111	Cash and Cash Equivalents	28	3,450
<b>60,120</b>	<b>Total Current Assets</b>		<b>61,333</b>
(14,032)	Short Term Borrowing	25	(13,203)
(38,433)	Short Term Creditors	35	(36,555)
(2,045)	Short Term Provisions	37	(1,558)
<b>(54,510)</b>	<b>Total Current Liabilities</b>		<b>(51,316)</b>
<b>5,610</b>	<b>Net Current Assets / Liabilities</b>		<b>10,017</b>
0	Long Term Provisions	37	(1,029)
(142,803)	Long Term Borrowing	25	(149,344)
(1,880)	Other Long Term Liabilities	25	(1,733)
(200,398)	Pension Liability	40	(188,296)
<b>(345,081)</b>	<b>Total Long Term Liabilities</b>		<b>(340,402)</b>
<b>154,426</b>	<b>Net Assets</b>		<b>103,251</b>
(49,417)	Usable Reserves	38	(46,666)
(105,009)	Unusable Reserves	39	(56,585)
<b>(154,426)</b>	<b>Total Reserves</b>		<b>(103,251)</b>

## Core Statements - Cash Flow Statement

This Statement shows the changes in cash and cash equivalents held by the Council during the financial year. It shows how the Council generates and uses cash and cash equivalents by classifying cash flows into operating, investing and financing activities.

Year to 31 March 2018 £000		Note	Year to 31 March 2019 £000
(31,342)	<b>(Deficit) on provision of services transferred to the General Fund</b>		<b>(87,369)</b>
	<b>Adjustment for items not affecting cash flow</b>		
16,679	Depreciation of Property Plant and Equipment (PPE)	22	16,546
1,731	Amortisation of Intangible Assets	32	2,048
5,786	Impairments to PPE	22	5,529
2,388	Impairments to Assets Held for Sale	33	101
(124)	Fair Value gain on Investment Properties	24	(63)
(3,792)	Donated PPE and Heritage Assets	22,23	(900)
0	Donated Investment Properties	24	0
9,877	Net Book Value on Disposal of Non-current Assets	22,33,23	66,241
7,398	Difference between Current Service Cost and Contributions made to the Pension Scheme	40	8,159
4,827	Impact of Changes to Actuarial Assumptions applied to the Pension Scheme Deficit	40	5,517
1,175	Movement in Provisions	37	543
<b>14,603</b>	<b>Surplus on provision of services after non cash adjustments</b>		<b>16,352</b>
(2,321)	Adjustments for items that are Financing or Investing Activities		(4,467)
	<b>Other operating cash flows</b>		
1,942	Cash absorbed by the reduction in Creditors	35	(1,184)
(10,247)	Cash absorbed by the increase in Debtors	34	(3,754)
(133)	Cash absorbed by the increase in Inventories	36	(196)
<b>3,844</b>	<b>Net cash flow from Operating Activities</b>		<b>6,751</b>
(25,831)	Investing Activities	45	(18,012)
19,634	Financing Activities	45	5,600
<b>(2,353)</b>	<b>Net increase/(decrease) in Cash and Cash Equivalents</b>		<b>(5,661)</b>
11,464	Cash and Cash Equivalents at the start of the period		9,111
<b>9,111</b>	<b>Cash and Cash Equivalents at the end of the period</b>		<b>3,450</b>

The cash flow for Operating Activities includes the following:-

(370)	Interest received		(451)
5,919	Interest paid		5,255

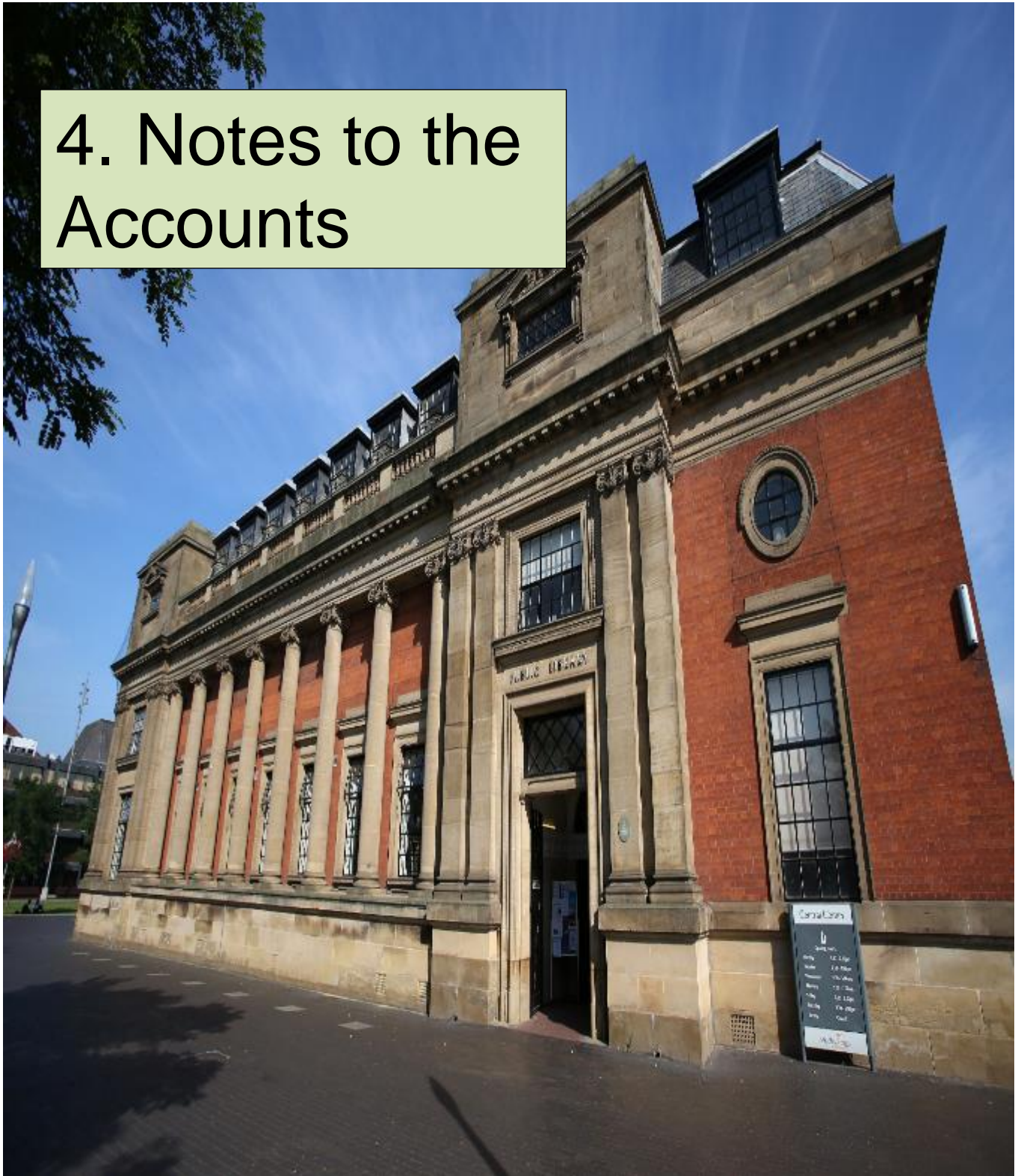
## Expenditure and Funding Statement

The Expenditure and Funding Statement shows how revenue expenditure is used and funded from resources raised (government grants, rents, council tax and business rates) by local authorities, in comparison with those resources consumed by authorities in accordance with generally accepted accounting practice. It also shows how this expenditure is allocated for decision-making purposes between the Council's directorates. Income and expenditure accounted for under generally accepted accounting practice is presented more fully in the Comprehensive Income and Expenditure Statement.

Expenditure Funding Analysis						
Restated 2017/18				2018/19		
Net Expenditure Chargeable to the General Fund Balance	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	Service Area	Net Expenditure Chargeable to the General Fund Balance	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
3,625	15,642	19,267	Regeneration	4,070	12,795	16,864
6,127	2,519	8,646	Culture, Communities and Communication	6,107	4,981	11,088
(8)	(1,981)	(1,989)	Improving Public Health	(132)	(2,401)	(2,533)
528	2,611	3,139	Education	1,385	889	2,274
31,376	3,411	34,787	Children's Care	34,905	3,010	37,915
35,106	2,518	37,624	Adult Social Care & Health Integration	36,812	413	37,225
18,119	17,187	35,306	Environment & Commercial Services	17,289	18,045	35,336
9,687	8,593	18,280	Finance, Governance & Support	7,764	9,266	17,030
2,227	317	2,544	Prevention and Partnerships	2,778	1,524	4,302
6,596	(13,288)	(6,692)	Central Costs	746	(3,732)	(2,987)
<b>113,383</b>	<b>37,529</b>	<b>150,912</b>	<b>Net Cost of Service</b>	<b>111,724</b>	<b>44,790</b>	<b>156,514</b>
(113,669)	(5,901)	(119,570)	Other Income and Expenditure	(111,285)	42,145	(69,140)
<b>(286)</b>	<b>31,628</b>	<b>31,342</b>	<b>Surplus or Deficit on Provision of Services</b>	<b>439</b>	<b>86,935</b>	<b>87,374</b>

14,465	<b>Opening Uncommitted General Fund Balance</b>	15,152
286	Less/Plus Surplus or (Deficit) on General Fund Balance in year	(439)
0	Transfer from Earmarked Reserves	0
(1,453)	Used in year	(2,811)
1,854	Contributions in year	0
<b>15,152</b>	<b>Closing Uncommitted General Fund Balance</b>	<b>11,904</b>

# 4. Notes to the Accounts



Central Library



## Notes to the Accounts

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# Notes to the Accounts

## Note 1 Accounting Policies

### Basis of Accounting

The Statement of Accounts summarises the Authority's transactions for the 2018/2019 financial year and its position at the year-end of 31 March 2019.

The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 in accordance with proper accounting practices.

These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Council Accounting in the United Kingdom 2018/2019, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

The accounting conventions adopted are principally as follows:

- The Accounts have been prepared using the going concern concept, on the assumption that the Council, its functions and services will continue in operational existence for the foreseeable future.
- Values applied relate primarily to historical cost modified by the revaluation of land and buildings and investment properties.
- The Accounts have been prepared using the accruals basis of accounting such that transactions are recorded on the basis of when they fall due and not when settled in cash.
- VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

### Accounting Developments and Changes in the Year

#### Changes to the Core Statements

In 2018-19 the following standards have been adopted into the Statement of Accounts:

**IFRS 9 Financial Instruments** – This introduces changes to the classification and measurement of financial assets and a new 'expected credit loss' model for impairing financial assets. This Standard has had little impact on the Council.

**IFRS 15 Revenue from Contracts with Customers** – The standard specifies how and when to recognise income and also has a requirement to provide users of Financial statements with more informative and relevant disclosures. The standard provides a single, principles based five step model to be applied to all contracts with customers. This standard has minimal impact on the Council and has had no impact on the figures included within the Financial Statements.

**IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses** - IAS 12 has been amended to clarify recognition of Deferred Tax Assets for unrealised losses related to debt instruments measured at fair value. This Standard has no implications for the Council.

**IAS 7 Statement of Cash Flows: Disclosure Initiative** - amendments to IAS 7 will potentially require more disclosures about the Council's financing activities. Any changes on this will be incorporated into the Council's accounts through compliance with the CIPFA Code of Practice.

## **Accounting Policies Applied to Significant Activities or Where Significant Judgement or Estimates have been applied**

The Council is required to adopt accounting policies that are appropriate to the activities it engages in. The policies applied remain unchanged from year to year subject only to the introduction of new requirements in accounting practices or significant changes to activities undertaken. These are as follows:

### **Recognition of Income and Expenditure**

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 grant will be received and all conditions associated with the grant will be satisfied.

Amounts recognised as grants and contributions for which conditions have not been satisfied are carried forward in the Balance Sheet as creditors.

When all conditions are satisfied, the grant or contribution is credited to the relevant service line or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

All other income and expenditure amounts are recognised on an accruals basis reflecting the date the service is provided with a de minimus limit of £10,000.

Expenditure in relation to goods or services received (including services provided by employees) is recorded as expenditure when the goods or services are consumed.

Where income or expenditure has been recognised but cash has yet to transfer this is held on the balance sheet as a debtor or creditor respectively.

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.

### **Comprehensive Income and Expenditure Account and the General Fund**

The surplus or deficit on provision of services reported in the Comprehensive Income and Expenditure Statement is transferred to the General Fund. Amounts are then transferred to and from the General Fund under statutory provisions or to set aside specific amounts for future policy purposes or to cover contingencies. These amounts are shown in the Movement in Reserves Statement.

#### *Amounts appropriated under Statutory Provisions*

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution (Minimum Revenue Provision) in the General Fund, by way of an adjusting transaction to the Capital Adjustment Account through the Movement in Reserves Statement.

The written-off value of asset disposals is appropriated to the Capital Adjustment Account.

Amounts received for an asset sale in excess of £10,000 (or £5,000 for Investment Properties and Intangible Assets) are categorised as capital receipts and credited to the Capital Receipts Reserve. Amounts in the Capital Receipts Reserve can then only be used to fund new capital investment (or be set aside to reduce the Authority's underlying need to borrow).

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 Comprehensive Income and Expenditure Statement in the year (REFCUS). Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer from the General Fund to the Capital Adjustment Account is made to reverse the amounts charged so there is no impact on the level of Council Tax.

Capital grant values included in the Comprehensive Income and Expenditure Statement for which capital expenditure has been incurred are transferred to the Capital Adjustment Account.

Capital grant values included in the Comprehensive Income and Expenditure Statement for which capital expenditure has not yet been incurred are transferred to the Capital Grants Unapplied Reserve until such time that capital expenditure is incurred at which time the expenditure is transferred to the Capital Adjustment Account.

Statutory provisions require the General Fund balance is only charged with the amount payable by the Authority to the pension fund in the year, not the amount calculated according to the relevant accounting standards. Accordingly, amounts charged and credited in determining the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement are replaced with amounts actually paid to the pension fund via an appropriation to the Pensions Reserve for the difference.

#### *Amounts set aside*

The Authority sets aside specific amounts as reserves for future liabilities or to cover contingencies by transferring amounts out of the General Fund to Earmarked Reserves. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service and transferred back into the General Fund. Amounts set aside and transferred back are shown in the Movement in Reserves Statement.

### **Property, Plant and Equipment**

Assets that have physical substance and are used in the production or supply of goods or services, or for administrative purposes and that are expected to be held for more than one financial year are classified as Property, Plant and Equipment.

#### *Recognition and Componentisation*

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised provided that it exceeds a de minimus level of £5,000. Expenditure that is below the de minimus or maintains but does not add to an asset's potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged as an expense.

Componentisation acknowledges that some assets are made up of different parts and that sometimes these parts have differing useful economic lives and should therefore be depreciated over different periods. Depreciating assets are subject to a review for componentisation where their individual carrying value is above 0.25% of the total carrying value of its asset class (Land and Buildings). On review, assets are componentised when by doing so would produce a depreciation charge of over £100,000 and more than double the difference compared with the depreciation charge if the asset isn't componentised.

#### *Measurement*

Purchased assets are initially measured at cost (usually the purchase price). Borrowing costs incurred whilst assets are under construction are not included in cost.

Donated assets are initially measured at historical cost with the difference between historic cost and any consideration paid being credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

Property, Plant and Equipment is then carried using the following measurement bases:

- Land and Buildings are carried at fair value. Fair value is determined as the amount that would be paid for the asset in its existing use (existing use value - EUV) for assets for which there is an active market (e.g. offices) and Depreciated Replacement Cost (DRC) for assets for which there is not an active market (e.g. schools). They are revalued 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;
- Infrastructure and Community Assets and Assets under Construction are valued at depreciated historical cost;
- Surplus assets are defined as those that are not being used to deliver services and do not fulfil the criteria to be classified as either Investment Properties or Assets Held for Sale. They are carried at fair value i.e. the price that would be received if an asset is sold or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. They are revalued regularly (every five years as a minimum) to ensure their carrying amount is not materially different from their fair value at the balance sheet date and

- All Other Assets are carried at depreciated historical cost as a proxy for fair value.

Where assets are carried at fair value the treatment of changes to the valuation are accounted for as follows:

- Increases in valuations are generally credited to the Comprehensive Income and Expenditure Statement as 'Other Comprehensive Income and Expenditure' and matched by an increase to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains will be credited to the Comprehensive Income and Expenditure Statement as a reduction in service cost if they arise from the reversal of a loss previously charged to a service;
- Decreases in valuations (up to the amount of any previously accumulated gains specific to that asset) are charged to the Comprehensive Income and Expenditure Statement as 'Other Comprehensive Income and Expenditure' and matched by a reduction to the Revaluation Reserve. Where the balance in the Revaluation Reserve is insufficient to absorb the decrease the remaining amount is charged against the relevant service line(s) in the Comprehensive Income and Expenditure Statement and
- The Revaluation Reserve contains revaluation gains recognised since 1st April 2007, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

#### *Impairment*

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. Impairment losses are treated in the same way as downward revaluations for the purposes of allocating between the Revaluation Reserve and the Comprehensive Income and Expenditure Statement.

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

#### *Discontinued Use*

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal).

### **Depreciation and Amortisation**

Depreciation is provided on all assets identified as Property, Plant and Equipment and Amortisation on Intangible Assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land), community assets and assets that are not yet available for 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, the components are recorded and depreciated separately.

Depreciation and Amortisation is charged over the useful life of the asset, using a depreciation method that reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed. The standard useful lives for new assets are as follows:

• Operational Buildings	40 Years
• Plant and Equipment	10 Years
• Vehicles	5 Years
• Surplus Buildings	40 Years
• Intangible Assets	4 Years

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.

### Post-Employment Benefits (Pensions)

Employees of the Authority are members of one of two separate pension schemes:

- The Local Government Pension Scheme, administered by Middlesbrough Council and
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department of Education (DfE).

Both Schemes provide defined benefits to members (retirement lump sums and pensions), on the basis of total years of service and salaries earned as employees working for the Council.

However, the arrangements for the Teachers' Pension Scheme are such that the liabilities for the benefits cannot be identified specifically to the Council so the scheme is accounted for as a defined contribution scheme with the assets and liabilities of the scheme excluded from the Council's Balance Sheet and only the value of actual contributions made being charged to the Comprehensive Income and Expenditure Statement.

The Local Government Pension Scheme is accounted for as a defined benefit scheme. Accordingly, the net liabilities of the Scheme attributable to the Council (as determined annually by the Scheme's actuary) are included in the Council's Balance Sheet.

Liabilities are determined using the projected unit method. This is an assessment of the likely future payments that will be made in relation to retirement benefits earned to date by employees. Estimates are based on assumptions including retirement profiles, mortality rates and projected earnings for current employees. Estimated liabilities are then discounted to their value at current prices, using a discount rate based on the rate of return on high quality corporate bonds which have been chosen to meet the requirements of IAS19.

The assets of the Scheme attributable to the Council are included in the Balance Sheet at their fair value as follows:

- Quoted securities - at current bid price and
- Property - at market value.

The change in the Scheme's net liability from the previous year is analysed as follows:

#### *Charged in the Comprehensive Income and Expenditure Statement*

- *Charged to Services*  
current service cost - the increase in liabilities as a result of additional service earned in the year.
- *Charged as Central Costs*  
past service cost - the increase in liabilities arising from current year decisions whose effect relates to the years of service earned in earlier years.  
gains or losses on settlements and curtailments - the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees.
- *Charged as Financing and Investment Income and Expenditure*  
interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid.  
expected return on assets - the annual investment return on the fund assets attributable to the Council based

on an average of the expected long-term return.

- *Charged as Other Comprehensive Income and Expenditure*

actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions.

- *Charged to the Pension Reserve*

contributions paid - cash paid as employer's contributions to the pension fund in the year.

## Note 2 Accounting Standards Issued but not yet adopted

### Accounting Standards that have been issued but not yet adopted

The following new standards (and amendments to existing standards) have been issued but not yet adopted by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

**IFRS 16 Leases** - will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2020 to ensure that local authorities have appropriate time to prepare for this change. This will have some implications for the Council which are currently being assessed.

**IAS 40 Investment Property** - Transfers of Investment Property provides further explanation of the instances in which a property can be classified as an investment property. This will have little impact on the Council as it has only a few properties and these already comply with the revised standard.

**IFRS 9 Financial instruments** - prepayment features with negative compensation amends IFRS9 to make clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest. The Council has no loans to which this new Standard would apply.

## Note 3 Assumptions made about the future and other major sources of estimation uncertainty

### Employee Benefits

#### Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) 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 following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.



## Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate a staff member's employment before the normal retirement date or a decision by a staff member to accept voluntary redundancy. Termination benefits are charged as Non Distributed Costs in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment or makes an offer to encourage voluntary redundancy.

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

## Heritage Assets

Heritage Assets are assets that are not used for the delivery of services but are instead assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

Heritage Assets are included in the balance sheet at a valuation considered appropriate and relevant to the specific asset. They are recognised, measured and subject to impairment in accordance with the Council's accounting policies on property, plant and equipment.

## Investment Properties

Investment properties are those that are held solely to earn rentals and / or for capital gain. Investment properties are not depreciated, they are recorded in the balance sheet initially at cost. They are subsequently measured at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Changes in valuation are charges or credited to Financing and Investment Activities in the Comprehensive Income and Expenditure Statement.

## Financial Instruments

Financial Instruments are any contract giving rise to a financial asset in one organisation and a financial liability in another organisation. This covers investments, cash, debtors, creditors, accruals, loans, derivatives and guarantees. For the Council these generally take the form of loans or similar borrowings and lendings. Gains and losses are separately identified on the Comprehensive Income and Expenditure Statement in accordance with IFRS9 on Financial Instruments.

## Financial Liabilities (Borrowing)

Financial liabilities are recognised when the Council becomes party to the contractual provisions of a financial instrument.

Interest payable is determined as the difference between the initial fair value and cash amounts to be repaid over the life of the instrument and is allocated to accounting periods in equal instalments.

## Financial Assets (Cash Balances and Investments)

The Council holds financial assets that are classified as loans and receivables in that they have fixed or determinable payments but are not quoted in an active market.

Loans and receivables are recognised when the Council becomes party to the contractual provisions of a financial instrument. They are initially measured at fair value and are subsequently carried at their amortised cost.

Interest receivable is determined as the difference between the initial fair value and cash amounts to be recovered over the life of the instrument and is allocated to accounting periods in equal instalments.

## **Leases**

IAS 17 – the current accounting standard in place for leasing identifies two classes of lease. Finance leases are where substantially all of the risks and rewards of ownership pass to the lessee. All other leases are classified as operating leases.

### **The Council as Lessee**

#### **Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

#### **Finance Leases**

Where the Council recognises a lease of this nature for any property being rented, the asset will be recognised in the Council's balance sheet at fair value, with a corresponding long-term liability. The liability will be written down over time as the rental arrangement is repaid, with any interest being charged to financing and investment expenditure in the Comprehensive Income and Expenditure Statement.

### **The Council as Lessor**

#### **Operating Leases**

The Council has granted operating leases over certain properties which are retained in the Balance Sheet. Rental income is credited to the Comprehensive Income and Expenditure Statement against the relevant service line heading on a straight line basis.

#### **Finance Leases**

Where the Council has granted a finance lease on any properties which are retained in the Balance Sheet, the asset will be derecognised from its accounts. A finance lease receivable will then be established representing the proceeds to be received over the lease term. Any amounts in respect of the principal value will reduce the lease debtor outstanding, with any amounts representing interest being credited to the Comprehensive Income and Expenditure Statement.

## **Cash and Cash Equivalents**

Cash and cash equivalents are represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours with insignificant risk of change in value. Overdrawn bank accounts are presented in the balance sheet net only where there is a right of offset.

## **Provisions and Contingent Liabilities**

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

When payments are made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

Contingent Liabilities are not recognised in the Balance Sheet or Comprehensive Income & Expenditure Statement due to their uncertainty. They arise 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 or where a provision would otherwise be made but the amount of the obligation cannot be measured reliably. Only a narrative description of the liability and any estimation of the potential cost will be disclosed in the note to the accounts.

## **Prior Period Adjustments**

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

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

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

## **Self-Insured Risks**

The Council has created an internal insurance fund to cover its liability in respect of the risks from fire damage, employers and public liability, motor vehicles, cash in transit and personal accident claims enquiries. The balances on the fund are reviewed biannually with surpluses transferring to general reserves and deficits being funded from increased premiums in the following financial year. In addition a separate internal insurance fund exists to cover remaining liabilities of the former Cleveland County Council. The risks to the two funds are reviewed on an annual basis.

## **Interests in Companies and Other Entities**

The Council has some minor interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities. However, these interests are immaterial and the Council is not required to prepare group accounts. 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.

## **Events after the Balance Sheet Date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of March each year and the date when the Statement of Accounts is authorised for issue. Two types of events are possible:

- 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 that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date the accounts are signed are not reflected in the Statement of Accounts.

## Note 4 Critical Judgements in Applying Accounting Policies

### Sensitivities, Accounting Estimates and Critical Judgements

#### Accounting for Schools - Balance Sheet Recognition of Schools

The Council recognises the land and buildings used by the schools in line with the provisions of the Code. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Council recognises the schools' land and buildings on its Balance Sheet where it directly owns the assets, the school or school Governing Body own the assets, or rights to use the assets have been transferred from another entity.

The table below shows the different type of schools within the Borough:

Type of School	No of Primary Schools	No of Secondary Schools	No of Special Schools	Total
Community	4	0	3	7
Voluntary Aided (VA)	1	0	0	1
Foundation	6	0	0	6
<b>Maintained</b>	<b>11</b>	<b>0</b>	<b>3</b>	<b>14</b>
Academies (not under the control of LA)	31	8	2	41
<b>Total</b>	<b>42</b>	<b>8</b>	<b>5</b>	<b>55</b>

Of these, only the Community Schools are owned and included on the Council's Balance Sheet.

During the course of the year nine schools converted to independent Academy status resulting in £60 million worth of assets being removed from the council's balance sheet.

#### Employer's Pension Liability

The accounting disclosure requirements for Local Authorities pension obligations are set out in International Accounting Standard (IAS) 19. The Council uses a firm of actuaries to calculate these figures as they involve making a number of complex judgements with regard to future events including the rate of increase in salaries, mortality rates, changes in the discount rate and the expected return on equity investments. Results under IAS 19 can change dramatically depending upon the prevailing market conditions leading to volatility on the net pension asset on the Council's balance sheet and the pension expense in the Comprehensive Income and Expenditure Statement.

#### Teachers' Pension Scheme

The Teachers' Pension Scheme is a defined benefit scheme but is accounted for as a defined contribution scheme with the assets and liabilities of the scheme excluded from the Council's Balance Sheet and only the value of actual contributions made being charged to the Comprehensive Income and Expenditure Statement. It is not possible to estimate the net asset value of the scheme that would be included in the accounts if the scheme was accounted for as a defined benefit scheme.

#### Investment Properties

Investment Properties are held in the Accounts at fair value which is based on an assessment of market values. Clearly the fair value can only be an estimate until a property is marketed for sale. Investment Properties are generally held for the long term so any testing of market values can only be done by comparison with similar properties that have recently been sold.

## Depreciation

Depreciation and amortisation cost is dependent on an assessment of the useful lives of the individual elements that make up the asset portfolio. This ranges from properties used in the delivery of services to vehicles and IT equipment. However, given that the significant majority of the depreciated cost is invested in land and buildings with long estimated lives, the potential impact on the Accounts of an inaccurate estimate in any one year is significantly reduced.

## Business Rates Retention Scheme

The Business Rates Retention Scheme was introduced with effect from 1st April 2013. The main aim of the scheme is to provide an incentive to Councils to encourage business growth, as Local Authorities can now retain a share of any Business Rates account surplus. However if Business Rates income declines, Local Authorities are liable to fund a share of any deficit. Middlesbrough's share of any deficit or surplus is 49%, Central Government has a 50% share and the Cleveland Fire Authority has a 1% share. The volatility of the NDR tax base and collection rates means that the introduction of the scheme has significantly increased the financial risk to the Council.

Under the regulations, Councils are now liable to fund a proportionate share of successful appeals against the level of rates chargeable to businesses. The Business Rates Fund Appeals Provision at 31st March 2018 was £4.164 million (Middlesbrough Council share £2.041 million). The provision was increased by £1.117 million in 2018/19 leaving a total fund closing provision balance at 31st March 2019 of £5.281 million. (Middlesbrough Council share £2.587 million).

## Charges to Revenue for Non-Current Assets

Services, Support Services and Trading Accounts are charged with the following amounts to record the cost of holding non-current assets during the year:

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

## Note 5 Events after the Balance Sheet Date

There are no events at the authorised issue date that affect any of the values in either the Financial Statements for 2018/19 or in the Notes to the Accounts.

## Notes Supporting the Movement in Reserves Statement

### Note 6 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 within the year to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure, in accordance with proper accounting practice.

2018/19	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Usable Reserves
	£000	£000	£000	£000
<b>Adjustments involving the Capital Adjustment Account:</b>				
<b>With the Comprehensive Income and Expenditure Statement</b>				
Impairment and depreciation to Property, Plant and Equipment (Note 22)	(17,769)	0	0	(17,769)
Revaluation Losses on Property, Plant and Equipment (Note 21,22)	(4,446)	0	0	(4,446)
Revaluation of Investment Properties and Assets for Sale (Note 26,36)	63	0	0	63
Amortisation of Intangible Assets (Note 32)	(2,048)	0	0	(2,048)
Transfer between Capital grants Unapplied and General Fund	0	0	0	0
Total Capital Grants (Note 10)	17,117	0	0	17,117
Capital Grants and Contributions Unapplied credited to the Comprehensive Income and Expenditure	0	0	(11,290)	(11,290)
Donated Assets (Note 22,26)	900	0	0	900
Revenue Expenditure Funded from Capital Under Statute (REFCUS) – Expenditure	(8,723)	0	0	(8,723)
Revenue Expenditure Funded from Capital Under Statute (REFCUS) – Grant Receivable	2,116	0	0	2,116
Non-current assets written off on disposal or sale (Note 22,26)	(62,389)	0	0	(62,389)
<b>Total with the Comprehensive Income and Expenditure Statement</b>	<b>(75,179)</b>	<b>0</b>	<b>(11,290)</b>	<b>(86,469)</b>
<b>Amounts arising elsewhere</b>				
Statutory provision for the financing of capital investment (Note 32)	3,004	0	0	3,004
Voluntary provision for the financing of capital investment	0	0	0	0
Capital Receipts Reserve used to finance new capital spend (Note 32)	0	4,392	0	4,392
Capital expenditure charged against the General Fund (Note 32)	31	0	0	31
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	6,071	6,071
<b>Total Amounts arising elsewhere</b>	<b>3,035</b>	<b>4,392</b>	<b>6,071</b>	<b>13,496</b>
<b>Total Amounts involving the Capital Adjustment Account</b>	<b>(72,144)</b>	<b>4,392</b>	<b>(5,219)</b>	<b>(72,971)</b>
<b>Amounts involving Deferred Capital Receipt Reserve</b>				
Transfer on receipt of cash	0	0	0	0
<b>Amounts involving the Pension Reserve</b>				

Reversal of Pension items in the Comprehensive Income and Expenditure Statement Note 43)	(25,867)	0	0	(25,867)
Employer's pension contribution payable in year (Note 43)	12,191	0	0	12,191
Difference in Collection Fund income credited to the Comprehensive Income and Expenditure Statement and that under stator requirements (Note 42)	1,543	0	0	1,543
<b>Amounts with the Compensated Absences Adjustment Account</b>				
Reversal of Accrual made at previous year end (Note 42)	1,562	0	0	1,562
Creation of accrual for current year end (Note 42)	(1,081)	0	0	(1,081)
<b>Amounts between Usable Reserves</b>				
Cash proceeds on disposal of Non-Current Assets	4,467	(4,467)	0	0
<b>Total Adjustments for the year ended 31 March 2018</b>	<b>(79,329)</b>	<b>(75)</b>	<b>(5,219)</b>	<b>(84,623)</b>

2017/18	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Usable Reserves
	£000	£000	£000	£000
<b>Adjustments involving the Capital Adjustment Account:</b>				
<b>With the Comprehensive Income and Expenditure Statement</b>				
Impairment and depreciation to Property, Plant and Equipment (Note 22)	(16,679)	0	0	(16,679)
Revaluation Losses on Property, Plant and Equipment (Note 21,22)	(8,173)	0	0	(8,173)
Revaluation of Investment Properties and Assets for Sale (Note 26,36)	124	0	0	124
Amortisation of Intangible Assets (Note 14)	(1,731)	0	0	(1,731)
Transfer between Capital grants Unapplied and General Fund	0	0	0	0
Total Capital Grants (Note 10)	14,502	0	0	14,502
Capital Grants and Contributions Unapplied credited to the Comprehensive Income and Expenditure	0	0	(5,555)	(5,555)
Donated Assets (Note 22,26)	3,792	0	0	3,792
Revenue Expenditure Funded from Capital Under Statute (REFCUS) – Expenditure	(5,526)	0	0	(5,526)
Revenue Expenditure Funded from Capital Under Statute (REFCUS) – Grant Receivable	82	0	0	82
Non-current assets written off on disposal or sale (Note 22,26)	(9,876)	0	0	(9,876)
<b>Total with the Comprehensive Income and Expenditure Statement</b>	<b>(23,484)</b>	<b>0</b>	<b>(5,555)</b>	<b>(29,040)</b>
<b>Amounts arising elsewhere</b>				
Statutory provision for the financing of capital investment (Note 42)	3,599	0	0	3,599
Voluntary provision for the financing of capital investment	0	0	0	0
Capital Receipts Reserve used to finance new capital spend (Note 42)	0	5,716	0	5,716
Capital expenditure charged against the General Fund (Note 42)	53	0	0	53
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	7,105	7,105
<b>Total Amounts arising elsewhere</b>	<b>3,652</b>	<b>5,716</b>	<b>7,105</b>	<b>16,473</b>
<b>Total Amounts involving the Capital Adjustment Account</b>	<b>(19,832)</b>	<b>5,716</b>	<b>1,550</b>	<b>(12,567)</b>
<b>Amounts involving Deferred Capital Receipt Reserve</b>				

Transfer on receipt of cash	0	(1)	0	(1)
<b>Amounts involving the Pension Reserve</b>				
Reversal of Pension items in the Comprehensive Income and Expenditure Statement Note 43)	(24,239)	0	0	<b>(24,239)</b>
Employer's pension contribution payable in year (Note 43)	12,014	0	0	<b>12,014</b>
Difference in Collection Fund income credited to the Comprehensive Income and Expenditure Statement and that under stator requirements (Note 42)	(1,405)	0	0	<b>(1,405)</b>
<b>Amounts with the Compensated Absences Adjustment Account</b>				
Reversal of Accrual made at previous year end (Note 42)	1,620	0	0	<b>1,620</b>
Creation of accrual for current year end (Note 42)	(1,562)	0	0	<b>(1,562)</b>
<b>Amounts between Usable Reserves</b>				
Cash proceeds on disposal of Non-Current Assets	2,321	(2,321)	0	<b>0</b>
<b>Total Adjustments for the year ended 31 March 2018</b>	<b>(31,083)</b>	<b>3,394</b>	<b>1,550</b>	<b>(26,139)</b>

## Note 7 Earmarked Reserves

	Amounts Transferred			Balance at 31 March 2019 £000
	Balance at 1 April 2018	From General Fund	To General Fund	
	£000	£000	£000	
<b>Schools Balances</b>	<b>(4,122)</b>	<b>(1,891)</b>	<b>3,121</b>	<b>(2,890)</b>
<b>Development in future Provision of Schools</b>	<b>(324)</b>	<b>0</b>	<b>228</b>	<b>(96)</b>
<b>Significant Revenue Reserves</b>				
Invest to Save / Change Programme	(1,802)	(1,910)	1,623	(2,089)
Revenue Grants Unapplied	(3,441)	(4,154)	3,494	(4,101)
Adult Social Care demand risk	(712)	0	712	0
Insurance Fund	(1,062)	(189)	289	(962)
Schools Reserves	(1,751)	(397)	1,672	(476)
Capital Re-Financing Reserve	(737)	0	562	(175)
Public Health Reserve	(660)	0	640	(20)
Business Rates Reserve	(4,134)	0	0	(4,134)
Investment Fund Reserve	(5,917)	0	288	(5,629)
<b>Total Significant Reserves</b>	<b>(20,216)</b>	<b>(6,650)</b>	<b>9,280</b>	<b>(17,586)</b>
Other Revenue Reserves	(1,659)	(231)	937	(953)
<b>Total Earmarked Reserves</b>	<b>(26,321)</b>	<b>(8,771)</b>	<b>13,567</b>	<b>(21,525)</b>

Details of some of the more significant earmarked reserves are set out below:-

### Schools Balances

This reserve holds the accumulated balances and the differences between the school budget and actual expenditure incurred in the year for all the Middlesbrough schools. In accordance with Government regulations and the Council's scheme of delegation for schools, these funds are carried forward and specifically earmarked for use by schools in future years.

**Invest to Save / Change Programme** - the reserve has been set up to pay for the one off costs associated with implementing change within services including the funding of investment to save projects, early retirements / voluntary redundancies and altering the way services are commissioned.

**Revenue Grants Unapplied** – In situations where there are no grant conditions or that conditions have already been met, any unspent grants/contributions are transferred to the Revenue Grants Unapplied at year end.



**Adult Social Care Demand Risk** - Demand for Adult Social Care services is highly volatile. The reserve has been set up to cover pressures on Adult Social Care budgets that the service need time to manage.

**Insurance Fund** - the internal Insurance Fund was set up to cover nearly all the Council's insurable risks. Only a limited amount of external insurance cover is provided for catastrophe or special risk incidents. The nature of the risks covered by the insurance reserve include fidelity guarantee, personal accident, employers liability, fire, motor, marine, engineers, public liability and money losses.

**Capital Re-Financing** - Funding has been set aside to cover future increases in the cost of capital borrowing.

**Public Health Reserves** - under the terms & conditions of the Public Health Grant, any grant funding not used by the end of the financial year can be carried forward within a Public Health Investment Reserve. The Public Health Investment Reserve is to be used for prevention and early intervention programmes. Programmes will be investment in starting and developing well, living and ageing well and enabling organisations, communities and individuals to take responsibility for health and well-being.

**Business Rates Reserve** - the reserve has been set up to cover the financial risks associated with the Business Rates Retention Scheme, due to volatility of the Business Rates tax base and collection rates.

**Investment Fund Reserve** - To be used to finance future investment opportunities.

**Schools Reserves** – This comprises of a number of reserves. The main reserve relates to £2,000,000 Council investment in a school improvement project between 2017/18 and 2019/20, designed to raise outcomes for all pupils through a combined approach involving the Council, Middlesbrough Achieving Partnership, Teaching Schools and schools.

## Notes Supporting the Comprehensive Income and Expenditure Statement

### Note 8 Other Operating Income and Expenditure

2017/18		2018/19
£000		£000
136	Town and Parish Council Precepts	134
0	Long term Lease for TWI	(3,851)
7,627	Losses on the disposal of non-current assets	61,911
<b>7,763</b>	<b>Total</b>	<b>58,194</b>

The large year on year change on this heading relates to nine schools and £60m worth of schools assets which have transferred to Academy status and as a result out of local authority ownership.

### Note 9 Financing and Investment Activities

2017/18		2018/19
£000		£000
4,580	Interest payable and similar charges	5,255
12,231	Trading Services Activities (Note 16)	10,800
(56)	Charges in relation to Investment Property and changes in their fair value	(63)
22,107	Pension Interest Cost (Note 43)	23,606
<b>38,862</b>	<b>Total Expenditure</b>	<b>39,598</b>
(17,473)	Expected return on Pensions Assets (Note 43)	(18,553)
(446)	Interest receivable and similar income	(451)
(140)	Income from Investment Property Assets	0
(12,552)	Trading Services Activity (Note 16)	(11,946)
<b>(30,611)</b>	<b>Total Income</b>	<b>(30,950)</b>
<b>8,251</b>	<b>Total</b>	<b>8,648</b>

## Note 10 Taxation and Non Specific Grant Income

2017/18		2018/19
£000		£000
(50,037)	Council Tax Income	(52,530)
(15,463)	Business Rates Income	(17,722)
(51,789)	Non ring-fenced government grant (Note 15)	(47,712)
(3,792)	Value of Donated Property, Plant and Equipment Assets (Note 22)	(900)
(14,503)	Capital Grants and Contributions	(17,118)
<b>(135,584)</b>	<b>Total</b>	<b>(135,982)</b>

The above reflects a general reduction in Government funding to support the 2018/19 revenue budget.

## Note 11 Pooled Budgets

A pooled budget (or fund) is an arrangement where two or more partners make financial contributions to a single fund to achieve specified and mutually agreed aims. It is a single budget, managed by a single host with a formal partnership or joint funding agreement that sets out aims, accountabilities and responsibilities. Middlesbrough Council has two Pooled Budgets, the Better Care Fund and Tees Community Equipment Service.

As host to the Better Care Fund and the Tees Community Equipment Service, the Council is required to include a memorandum account for both pooled budgets in its accounts. Only Middlesbrough's share of the pooled budget's expenditure and income is included in the Comprehensive Income and Expenditure Statement.

### Better Care Fund

The Better Care Fund (BCF) has been established by the Government to provide funds to local areas to support the introduction of a fully integrated health and social care system. It is a requirement of the BCF that the Clinical Commissioning Group (CCG) and the Council establish a pooled fund for this purpose.

Section 75 of the National Health Service Act 2006 gives powers to local authorities and CCGs to establish and maintain pooled funds to support the outcomes of the BCF.

The Council has entered into a pooled budget arrangement with NHS South Tees Clinical Commissioning Group for the provision of health and social care services to meet the needs of the population of Middlesbrough. The services being commissioned or provided by the Council or South Tees Clinical Commissioning Group (STCCG) depend upon the needs of the service recipient. The Council and STCCG have an ongoing section 75 agreement in place for funding these services and this is reviewed annually. The Council is the host for this pooled budget and each partner's contribution is set out in the Better Care Fund section 75 agreement.

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

- Improve the quality and efficiency of the services and in particular reduce the number of non-elective admissions to acute hospitals;
- Meet the national conditions and local objectives of the Government's Better Care Fund and
- Make more effective use of available resources through the establishment and maintenance of a pooled fund for revenue and capital expenditure on the services.

2017/18		2018/19
£000		£000
(269)	<b>Balance Brought Forward</b>	(291)
	<b>Funding Provided to the Pooled Budget</b>	
(6,336)	By the Council	(8,175)
(10,855)	By South Tees Clinical Commissioning Group	(11,061)
<b>(17,191)</b>	<b>Total Funding</b>	<b>(19,527)</b>
	<b>Expenditure met from the Pooled Budget</b>	
13,510	By the Council	16,243
3,492	By South Tees Clinical Commissioning Group	3,087
<b>17,002</b>	<b>Total Expenditure</b>	<b>19,330</b>
167	Capital Amounts allocated to 2019/20	197
<b>(291)</b>	<b>Net surplus arising on the Pooled Budget to be carried forward</b>	<b>0</b>

### Tees Community Equipment Service

The Tees Community Equipment Service is a partnership established by an agreement under Section 31 of the Health Act 1999. The partnership agreement covers the costs of administering the Tees Community Equipment Service including:

- The procurement, storage, delivery, assembly or fitting, maintenance, collection, decontamination and recycling of community equipment provided to support vulnerable or disabled service users living in the community;
- To provide and maintain stock of equipment at additional designated locations, where provided by the Partner of this Agreement, for demonstration and use by the Occupational Therapy Service of that locality;
- To incorporate mechanisms which enable Health and Social Service professionals and members of the public to attend the service's premises to collect equipment;
- A facility for the procurement of non-stock items; and
- The production and distribution of a catalogue describing the service and equipment available.

The agreement was made between eight partners as set out in the memorandum of account. The original eight partners in the Tees Community Equipment Service were Middlesbrough Council, Stockton-on-Tees Borough Council, Redcar & Cleveland Borough Council, Hartlepool Borough Council, Middlesbrough PCT, North Tees PCT, Redcar & Cleveland PCT and Hartlepool PCT. Following NHS reorganisation in 2013/2014, the Primary Care Trusts (PCTs) were abolished and replaced by Clinical Commissioning Groups (CCGs). Middlesbrough Council is the lead authority for the service. The outturn position for the year is set out overleaf:

2017/18		2018/19
£000		£000
(576)	<b>Balance brought forward</b>	(494)
1,487	Gross Expenditure	1,622
(1,405)	Gross Income	(1,580)
<b>(494)</b>	<b>Balance carried forward</b>	<b>(452)</b>
	<b>Contribution from Partners</b>	
(134)	Middlesbrough Council	(154)
(122)	Stockton Borough Council	(141)
(139)	Redcar & Cleveland Borough Council	(151)
(91)	Hartlepool Borough Council	(84)
(413)	South Tees Clinical Commissioning Group	(438)
(396)	North Tees and Hartlepool NHS Foundation Trust	(453)
(110)	Other Income	(159)
<b>(1,405)</b>	<b>Total</b>	<b>(1,580)</b>

## Note 12 Officers' Remuneration

### Senior Employees' Remuneration

The Accounts and Audit Regulations (England) 2015 requires the separate disclosure and analysis of remuneration for **senior employees** (defined by the regulations as those employees, who report into the Head of Paid Service – the Chief Executive, or are deemed under regulations as statutory officers of the Council).

2018/19	Salary (including fees and allowances)	Pension contributions paid for by the Council	Employer's contribution to early retirement costs to pension fund	Total including pensions contribution
	£	£	£	£
Chief Executive – Tony Parkinson	145,653	22,287	0	<b>167,940</b>
Director of Public Health	105,279	16,108	0	<b>121,387</b>
Strategic Director of Finance, Governance and Support / Section 151 Officer	99,466	15,447	0	<b>114,913</b>
Director of Adult Social Care and Health Integration	86,232	13,193	0	<b>99,425</b>
Executive Director Growth and Places	118,090	18,066	0	<b>136,156</b>
Executive Director of Children's Services (Started August 2017)	116,910	17,887	0	<b>134,797</b>
Head of Legal and Democratic Services – Monitoring Officer (left January 2019)	58,835	8,977	0	<b>67,812</b>
Head of Legal and Democratic Services – Monitoring Officer (started January 2019)	9,823	1,503	0	<b>11,326</b>

2017/18	Salary (including fees and allowances)	Pension contributions paid for by the Council	Employer's contribution to early retirement costs to pension fund	Total including pensions contribution
	£	£	£	£
Chief Executive – Tony Parkinson	142,814	21,850	0	<b>164,664</b>
Director of Public Health	92,499	13,055	0	<b>105,554</b>
Strategic Director of Finance, Governance and Support / Section 151 Officer	98,980	15,144	0	<b>114,124</b>
Director of Adult Social Care and Health Integration	83,240	12,736	0	<b>95,976</b>
Executive Director Growth and Places	115,765	17,712	0	<b>133,477</b>
Executive Director of Children's Services (Started August 2017)	70,250	10,748	0	<b>80,998</b>
Head of Legal and Democratic Services – Monitoring Officer	59,500	9,103	0	<b>68,603</b>

#### Other Employees' Remuneration

The number of employees (including teaching staff) whose gross remuneration, including benefits, expense allowances, redundancy and other severance payments, exceeded £50,000 is shown below in bands of £5,000.

2017/18			Remuneration Band (£)	2018/19		
MBC	School	Total		MBC	School	Total
19	15	<b>34</b>	50,000 to 54,999	21	10	<b>31</b>
7	12	<b>19</b>	55,000 to 59,999	6	8	<b>14</b>
3	8	<b>11</b>	60,000 to 64,999	9	4	<b>13</b>
4	9	<b>13</b>	65,000 to 69,999	3	5	<b>8</b>
1	1	<b>2</b>	70,000 to 74,999	5	4	<b>9</b>
1	3	<b>4</b>	75,000 to 79,999	2	1	<b>3</b>
2	0	<b>2</b>	80,000 to 84,999	0	0	<b>0</b>
0	0	<b>0</b>	85,000 to 89,999	4	0	<b>4</b>
0	0	<b>0</b>	90,000 to 94,999	0	0	<b>0</b>
0	0	<b>0</b>	95,000 to 99,999	0	0	<b>0</b>
0	1	<b>1</b>	100,000 to 104,999	0	0	<b>0</b>
0	0	<b>0</b>	105,000 to 109,999	0	0	<b>0</b>
1	0	<b>1</b>	110,000 to 114,999	0	0	<b>0</b>
0	0	<b>0</b>	115,000 to 119,999	0	0	<b>0</b>
0	0	<b>0</b>	120,000 to 124,999	0	0	<b>0</b>
0	0	<b>0</b>	125,000 to 129,999	0	0	<b>0</b>

0	0	0	130,000 to 134,999	1	0	1
0	0	0	135,000 to 139,999	0	0	0
0	0	0	140,000 to 144,999	0	0	0
0	0	0	145,000 to 149,999	0	0	0
0	0	0	150,000 to 154,999	0	0	0
0	0	0	155,000 to 159,999	0	0	0
0	0	0	160,000 to 164,999	0	0	0
0	0	0	165,000 to 169,999	0	0	0
0	0	0	170,000 to 174,999	1	0	1
<b>38</b>	<b>49</b>	<b>87</b>	<b>Total</b>	<b>52</b>	<b>32</b>	<b>84</b>

Remuneration is all amounts receivable by an employee, including expenses and allowances chargeable to tax and the estimated money value of any other benefits received excluding pension contributions.

In 2018/2019 6 staff were included in the above table due to one-off redundancy payments taking their total remuneration above £50,000 (2017/2018 3 staff).

### Exit Packages

Details of exit packages are set out in the tables below in bands of £20,000 for amounts up to £100,000 and bands of £50,000 thereafter:

Exit Package Cost Band (Including Special Payments) £	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost Band		Total Cost of Exit Packages in Each Band	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
							£000	£000
0 to 20,000	0	6	19	36	19	42	151	355
20,001 to 40,000	0	0	2	13	2	13	69	320
40,001 to 60,000	0	0	0	1	0	1	0	50
60,001 to 80,000	0	0	1	2	1	2	67	144
80,001 to 100,000	0	0	0	1	0	1	0	85
100,001 to 150,000	0	0	1	1	1	1	122	131
Over 150,001	0	0	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>6</b>	<b>23</b>	<b>54</b>	<b>23</b>	<b>60</b>	<b>409</b>	<b>1,085</b>

## Note 13 Audit Fees

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

2017/18 £000		2018/19 £000
115	Fees Payable for external audit service	138
11	Fees payable for the certification of grant claims and returns	14
4	Fees payable in respect of other services	4
<b>130</b>	<b>Total</b>	<b>156</b>

## Note 14 Dedicated Schools Grant

Council Schools' expenditure is funded primarily from the Dedicated Schools Grant (DSG) distributed by the Department for Education (DfE), an element of which is recouped by the DfE to fund academy schools in the Council's area. DSG is ring fenced and can only be used to fund approved expenditure, as defined in The School and Early Years Finance (England) Regulations 2017. DSG is split between an element to fund a range of educational services provided on a council-wide basis and the Individual Schools Budget (ISB) element that is allocated directly to each School.

Details of DSG funded expenditure for 2018/2019 is set out below:

	Central Expenditure	Individual Schools Budget	Total
	£000	£000	£000
Final DSG for 2017/18 before Academy recoupment			(135,134)
Academy figure recouped for 2018/19			(80,994)
<b>Total DSG after Academy recoupment for 2018/19</b>			<b>(54,140)</b>
Plus : Brought forward from 2017/18			1,171
Less : Carry Forward to 2019/20 agreed in advance			0
<b>Agreed initial budgeted distribution for 2018/19</b>	<b>(14,525)</b>	<b>(38,444)</b>	<b>(52,969)</b>
In year adjustments	0	0	0
<b>Final budgeted distribution for 2018/19</b>	<b>(14,525)</b>	<b>(38,444)</b>	<b>(52,969)</b>
Less : Actual central expenditure	16,359	0	16,359
Less : Actual ISB deployed to schools	0	38,293	38,293
<b>Balance Carried Forward</b>	<b>1,834</b>	<b>(151)</b>	<b>1,683</b>

Details of the total level of reserves and balances held by schools is disclosed in Note 7.

## Note 15 Grant Income

The following grants, contributions and donations were credited to the Comprehensive Income and Expenditure Statement in 2018/19.

Revenue Grants Credited to Taxation and Non Specific Grant Income		
2017/18		2018/19
£000		£000
(21,051)	Revenue Support	(16,534)
(25,712)	Business Rates Top-up	(26,042)
(2,854)	New Homes Bonus	(2,349)
(2,172)	Business Rates Section 31	(2,787)
<b>(51,789)</b>	<b>Total (note 10)</b>	<b>(47,712)</b>
Revenue Grants Credited to Services		
Department for Education (DfE)		
(63,457)	Dedicated Schools Grant	(53,792)
(5,348)	Pupil Premium	(4,388)
(84)	Education Funding Agency	0
(290)	Education Services	(342)
(2,137)	Skills Funding Agency	(2,019)
0	Staying Put Agency	(109)
(881)	Universal Infant Free School Meals	(845)
(802)	High Needs Sixth Form Funding	(780)
(932)	Other DfE grants	(178)
Ministry of Housing, Communities and Local Government (MHCLG)		
(1,946)	Independent Living	(1,885)
(761)	Adult Social Care Grant	(474)



(4,328)	Improved Better Care Fund	(6,023)
(866)	Troubled Families	(798)
0	Winter Pressures	(758)
0	Migration Fund	(941)
(1,671)	Other MHCLG grants	(1,188)
	<b>Home Office</b>	
(805)	Youth Justice Good Practice Grant	(805)
(629)	Other Home Office	(178)
	<b>Department for Business, Energy and Industrial Strategy (BEIS)</b>	
(167)	BEIS grants	(167)
	<b>Department for Digital, Culture, Media and Sport (DCMS)</b>	
(403)	DCMS grants	(642)
	<b>Department for Work and Pensions (DWP)</b>	
(73,608)	Housing Benefit Subsidy	(70,806)
(1,148)	Housing Benefit Admin	(1,118)
(755)	Other Grants	(1,039)
	<b>Department of Health and Social Care (DHSC)</b>	
(17,155)	Public Health	(16,787)
(218)	Other DHSC grants	(166)
	<b>Department for Environment, Food and Rural Affairs (DeFRA)</b>	
(80)	DeFRA grants	(370)
	<b>Department for Transport (DfT)</b>	
(75)	DfT grants	(102)
	<b>Lottery Grants</b>	
(123)	Other Lottery Grants	(154)
	<b>Cabinet Office</b>	
(163)	Elections	0
(112)	Other Grants	(35)
	<b>Other Contributions</b>	
(16,738)	South Tees Clinical Commissioning Group	(19,379)
(2,273)	Redcar and Cleveland Borough Council	(2,868)
(996)	Stockton-on-Tees Borough Council	(1,023)
(292)	Tees, Esk and Wear Valleys NHS Foundation Trust	(258)
(631)	South Tees Hospitals NHS Foundation Trust	(543)
(368)	Hartlepool Borough Council	(711)
(151)	North of England Commissioning Support Unit	0
(234)	Tees Valley Combined Authority	(416)
0	Police and Crime Commissioner	(125)
(668)	Other Contribution	(728)
<b>(201,295)</b>	<b>Total Revenue Grants Credited to Services</b>	<b>(192,793)</b>
<b>(253,084)</b>	<b>TOTAL REVENUE GRANTS</b>	<b>(240,505)</b>

	<b>Capital Grants</b>	
	<b>Department for Education (DfE)</b>	
(935)	School Condition Allocation	(1,874)
(198)	Other DfE grants	(85)
	<b>Ministry of Housing, Communities and Local Government (MHCLG)</b>	
(1,876)	Disabled Facility	(2,067)
	<b>Department of Health and Social Care (DHSC)</b>	
(98)	Other DHSC grants	0
	<b>Department for Transport (DfT)</b>	
(3,021)	Local transport Plan	(994)
0	Joint Air Quality Unit Early Measures Funding	(1,813)
(641)	Other DfT Grants	0
	<b>Department for Digital, Culture, Media and Sport (DCMS)</b>	
(40)	Arts Council Captain Cook Museum	0

	<b>Lottery Grants</b>	
(2,681)	Heritage Lottery Fund	0
(4,812)	<b>Other Grants</b>	(7,170)
	<b>Other Contributions</b>	
(50)	Teesside University	0
0	Housing Development	(4,615)
(1,083)	Other Contributions	(616)
<b>(15,435)</b>	<b>Total Capital Grants</b>	<b>(19,235)</b>
<b>(268,519)</b>	<b>TOTAL GRANTS 2018/19</b>	<b>(259,739)</b>

Memo:

Capital grants recognised through CIES

(932)	Amount Applied Directly to Services	(2,117)
(14,503)	Amount recognised as Taxation and Non Specific Income – Note 10	(17,118)
<b>(15,435)</b>	<b>Total Capital Grants</b>	<b>(19,235)</b>

## Note 16 Trading Operations

The Council has established a number of trading services which are required to operate in a commercial environment and balance their budgets by generating income from other Council departments or from external organisations. Details of these operations are given below:

2017/18				2018/19		
Income	Expenditure	(Surplus) / Deficit		Income	Expenditure	(Surplus) / Deficit
£000	£000	£000		£000	£000	£000
(3,073)	2,464	<b>(609)</b>	Commercial and Industrial Properties	(2,713)	1,881	<b>(832)</b>
(2,999)	3,167	<b>168</b>	Building Maintenance, Cleaning and Security	(2,925)	2,804	<b>(121)</b>
(1,066)	982	<b>(84)</b>	Parking	(1,330)	1,208	<b>(122)</b>
(5,414)	5,618	<b>204</b>	Schools Catering	(4,978)	4,907	<b>(71)</b>
<b>(12,552)</b>	<b>12,231</b>	<b>(321)</b>	<b>Total</b>	<b>(11,946)</b>	<b>10,800</b>	<b>(1,146)</b>

## Note 17 Agency Services

The Council has no material agency arrangements.

## Note 18 Members' Allowances and Expenses

2017/18		2018/19
£000		£000
295	Basic Allowance Paid	297
260	Special Responsibility Allowances Paid	263
9	Expenses	7
<b>564</b>	<b>Total</b>	<b>567</b>

## Note 19 Related Parties

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

### Central Government

Central Government has effective control over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Grants received from Government Departments are set out in note 15. Debtor and Creditor balances for Central Government bodies are shown in notes 34 and 35.

### Senior Officers and Members

The Council's Senior Managers and Elected Members and their close relations may influence the Council's financial and operating policies. Using the Council's Register of Members' Declarations of Interest and a separate survey of both Members and Senior Officers, the following disclosures meet the criteria for related party transactions on behalf of the Council. The Local Government Act 2000 and The Local Authorities (Functions and Responsibilities) (England) Regulations provide for the discharge of the Council's functions through executive arrangements.

### Teesside Pension Fund

Details of all transactions with the Pension Fund are shown in the Teesside Pension Fund section of the Statement of Accounts. Specifically, the Council made contribution payments as an employer of £13.8 million (2017/2018 - £9.9 million) and made charges to the Fund for Support Services of £1,202,000 (part of which was provided by Kier Business Services Ltd).

A number of elected members and senior officers sit on the management committees or boards of local organisations. During the year the significant transactions that the Council had with these organisations are listed below:

Related Parties Year Ended 31 March 2019				
Organisation	Expenditure transactions in year	Income Transactions in year	Year End Creditor Balances	Year End Debtor Balances
	£000	£000	£000	£000
Achieving Change Through Enterprising Solutions (ACTES)	48	0	0	0
Middlesbrough Environment City	460	16	0	3
Citizens Advice Bureau	517	15	0	0
Middlesbrough Voluntary Development Agency	713	0	0	0
Police and Crime Commissioner	780	166	0	0
Horizons Specialist Academy Trust	850	0	0	0
Middlesbrough College	437	94	0	8
Marton Community Centre Group	1	0	0	4
Tees Valley Combined Authority	4,957	24	0	5

<b>Related Parties Year Ended 31 March 2018</b>				
<b>Organisation</b>	<b>Expenditure transactions in year</b>	<b>Income Transactions in year</b>	<b>Year End Creditor Balances</b>	<b>Year End Debtor Balances</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Achieving Change Through Enterprising Solutions (ACTES)	31	0	0	0
Middlesbrough Environment City	404	18	0	4
North East Regional Employers Organisation	104	0	0	0
Citizens Advice Bureau	490	47	0	0
Middlesbrough Voluntary Development Agency	309	0	0	0
Tees, Esk and Wear Valley NHS Foundation Trust	270	435	0	25
Horizons Specialist Academy Trust	175	0	0	0
Stainton & Thornton Parish Council	7	0	0	0
Teesside Ability Support Centre	417	3	0	0
Middlesbrough College	344	45	0	0
Marion Community Centre Group	0	22	0	2
Tees Valley Combined Authority	4,607	32	0	0

## Notes Supporting the Balance Sheet

### Note 20 Capital Commitments

The Council has an approved 2019/20 budget for the construction or enhancement of Property, Plant and Equipment of £65,590,000.

Contracts are already in place for the following schemes:

Project	2019/20
	Approved Budget
	£000
Teesside Advanced Manufacturing Park	17,120
Housing Delivery Vehicle (S106)	9,000
LED Street Lighting Upgrade (Phase 2)	3,219
Stainton Way Dixon Bank Junction - Section 106	1,302
<b>Total</b>	<b>30,641</b>

### Note 21 Revaluations and Impairments of Property, Plant and Equipment (PPE)

The Council maintains a revaluation rolling programme which ensures that all Property, Plant and Equipment required to be measured at fair value are revalued at least every five years. All valuations were carried out by Kier Business Services Ltd, the Council's strategic partner. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The effective date of the revaluation for most of the assets that were revalued during 2018/19 is 1 April 2018.

The significant assumptions applied in estimating fair values are:

- The estimated amount for which a property should exchange on the date of valuation and
- The transaction is at arm's length between willing parties acting knowledgeably, prudently and without compulsion.

#### Revaluation Analysis

The table overleaf shows the value of assets that have been revalued during 2018/2019 and the value of assets that have been revalued over the last four years. The table also identifies the value of assets held at historical cost and at fair value.

	Land and Buildings	Surplus Land and Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Assets under Construction	Total PPE
	£000	£000	£000	£000	£000	£000	£000
Carried at historical cost at 31 March 2019			7,732	132,585	8,257	6,775	155,348
Valued at current value as at:							
31 March 2019	51,804	42,389	0	0	0	0	94,193
31 March 2018	46,366	5,205	0	0	0	0	51,571
31 March 2017	65,476	159	0	0	0	0	65,635
31 March 2016	11,382	210	0	0	0	0	11,592
31 March 2015	9,182	942	0	0	0	0	10,124
<b>Total Cost or Valuation</b>	<b>184,210</b>	<b>48,905</b>	<b>7,732</b>	<b>132,585</b>	<b>8,257</b>	<b>6,775</b>	<b>388,464</b>

#### Impairment and Revaluation Losses

The Code requires disclosure by class of assets of the amounts for impairment and Revaluation losses and reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure.

These disclosures are consolidated in Notes 22, 26 and 36 reconciling the movement over the year in Property, Plant and Equipment and Investment Property balances.

During 2018/19 the Council has recognised a net downward revaluation of £4.3 million and an impairment of £1.2m mainly due to the following changes which have affected valuation calculations.

- Downward revaluation on Gresham Phase 2A after assessing the value as a cleared site against future costs, total £1.5m.
- Downward revaluation of £1.3m on Middlehaven Urban Park.
- Impairment of £1.2m to the Southlands building due to being partly demolished at the balance sheet date.
- Upward revaluation of £0.45m for Depreciated Replacement Cost (DRC) adjustments due to changes in the location factor and Building Cost Information Service (BCIS) rates during the year from 1st April 2018 to 31st March 2019. This relates to properties which are 'specialised' in nature and therefore valued using the DRC method.
- Downward revaluation of Assets Held for Sale of £0.1m including Vancouver House and other assets transferred to this asset class during the year.
- Downward revaluation of £0.06m on Investment asset portfolio of 10 properties which are required to be revalued every year.
- Other downward revaluations totalling £2m.

## Note 22 Property, Plant and Equipment (PPE)

The definition of property, plant and equipment covers all assets with physical substance that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period. Service potential is of primary interest when managing public sector assets because the purpose of acquiring and holding assets within the public sector is to enable the delivery of services.

2018/19	Land and Buildings	Surplus Assets	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	TOTAL
	£000	£000	£000	£000	£000	£000	£000
<b>Cost of Valuation</b>							
<b>At 1 April 2018</b>	<b>250,843</b>	<b>52,996</b>	<b>39,628</b>	<b>191,469</b>	<b>8,246</b>	<b>7,680</b>	<b>550,862</b>
Additions	4,566	1,622	1,279	5,230	11	8,979	<b>21,687</b>
Donations	0	66	21	813	0	0	<b>900</b>
Revaluation increases to Revaluation Reserve	222	5,935	0	0	0	0	<b>6,157</b>
Revaluation decreases to Deficit on Provision of Services	(4,008)	(1,666)	0	0	0	0	<b>(5,674)</b>
Derecognition - Disposals	(61,000)	(5,887)	(3,405)	(3)	0	0	<b>(70,295)</b>
Assets reclassified (to) Held for Sale	0	(5,612)	0	0	0	0	<b>(5,612)</b>
Assets reclassified (to)/from Assets – other categories	(1,220)	1,514	0	9,590	0	(9,884)	<b>0</b>
<b>At 31 March 2019</b>	<b>189,403</b>	<b>48,968</b>	<b>37,523</b>	<b>207,099</b>	<b>8,257</b>	<b>6,775</b>	<b>498,025</b>

2018/19	Land and Buildings	Surplus Assets	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
<b>Accumulated Depreciation and Impairment</b>							
<b>At 1 April 2018</b>	<b>(3,861)</b>	<b>(32)</b>	<b>(30,140)</b>	<b>(67,225)</b>	<b>0</b>	<b>0</b>	<b>(101,258)</b>
Depreciation charge for the year	(6,327)	(60)	(2,868)	(7,290)	0	0	(16,545)
Depreciation written out to the Revaluation Reserve	4,219	5	0	0	0	0	4,224
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services.	(1,222)	0	0	0	0	0	(1,222)
Impairment (losses)/reversals written out to the Revaluation Reserve	(181)	0	0	0	0	0	(181)
Depreciation written out to the Deficit on Provision of Services	1,192	175	0	0	0	0	1,367
Derecognition - Disposals	833	3	3,217	1	0	0	4,054
Assets reclassified (to)/from Assets Held for Sale	0	0	0	0	0	0	0
Assets reclassified (to)/from other categories	154	(154)	0	0	0	0	0
<b>At 31 March 2019</b>	<b>(5,193)</b>	<b>(63)</b>	<b>(29,791)</b>	<b>(74,514)</b>	<b>0</b>	<b>0</b>	<b>(109,561)</b>
<b>Net Book Value At 31 March 2019</b>	<b>184,210</b>	<b>48,905</b>	<b>7,732</b>	<b>132,585</b>	<b>8,257</b>	<b>6,775</b>	<b>388,464</b>

#### Fair Value Hierarchy

All the Council's Surplus Assets have been assessed as level 3 for valuation purposes.

#### Valuation Techniques Used to Determine Level 3 Fair Values for Investment Properties

The Council's Surplus Assets are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements and there is no reasonably available information that indicates that market participants would use different assumptions.



### Highest and Best Use of Investment Properties

In estimating the fair value of the Council's surplus assets the highest and best use of the assets are considered.

2017/18	Land and Buildings	Surplus Assets	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	TOTAL
	£000	£000	£000	£000	£000	£000	£000
<b>Cost of Valuation</b>							
<b>At 1 April 2017</b>	<b>295,181</b>	<b>0</b>	<b>40,432</b>	<b>183,811</b>	<b>8,216</b>	<b>2,052</b>	<b>529,692</b>
Other Movements – reclassification to surplus properties at 1 April 2017	(46,790)	46,790	0	0	0	0	0
Additions	11,222	998	2,071	5,808	30	5,628	<b>25,757</b>
Donations	1,489	445	0	1,858	0	0	<b>3,792</b>
Revaluation increases to Revaluation Reserve	8,759	6,016	0	0	0	0	<b>14,775</b>
Revaluation decreases to Deficit on Provision of Services	(6,616)	(1,282)	0	0	0	0	<b>(7,898)</b>
Derecognition - Disposals	(9,580)	(86)	(2,875)	(33)	0	0	<b>(12,574)</b>
Assets reclassified (to) Held for Sale	(2,582)	0	0	0	0	0	<b>(2,582)</b>
Assets reclassified (to)/from Assets – other categories	(240)	115	0	25	0	0	<b>(100)</b>
<b>At 31 March 2018</b>	<b>250,843</b>	<b>52,996</b>	<b>39,628</b>	<b>191,469</b>	<b>8,246</b>	<b>7,680</b>	<b>550,861</b>

2017/18	Land and Buildings	Surplus Assets	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
<b>Accumulated Depreciation and Impairment</b>							
<b>At 1 April 2017</b>	(6,721)	0	(29,566)	(60,288)	0	0	<b>(96,575)</b>
Other Movements-reclassification to Surplus Properties at 1 April 2017	18	(17)	(1)	1	0	0	<b>1</b>
Depreciation charge for the year	(6,415)	(27)	(3,288)	(6,949)	0	0	<b>(16,679)</b>
Depreciation written out to the Revaluation Reserve	7,090	28	0	0	0	0	<b>7,118</b>
Depreciation written out to the Deficit on Provision of Services	2,112	0	0	0	0	0	<b>2,112</b>
Derecognition - Disposals	39	0	2,715	11	0	0	<b>2,765</b>
Assets reclassified (to)/from other categories	16	(16)	0	0	0	0	<b>0</b>
<b>At 31 March 2018</b>	<b>(3,861)</b>	<b>(32)</b>	<b>(30,140)</b>	<b>(67,225)</b>	<b>0</b>	<b>0</b>	<b>(101,258)</b>

<b>Net Book Value At 31 March 2018</b>	<b>246,982</b>	<b>52,963</b>	<b>9,488</b>	<b>124,244</b>	<b>8,246</b>	<b>7,680</b>	<b>449,603</b>
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Included in the land and buildings are a number of leisure properties which from 1st April 2016 were transferred to SLM under a Service Concession Arrangement. Under this arrangement, vehicles, plant and furniture and equipment transferred to SLM and were removed from the Council's balance sheet. Land and buildings remain on the balance sheet at their current value. Details of the value of these land and building assets as at 31st March 2018 are included in the table overleaf. All properties were revalued at the date of transfer on 1st April 2016.

	<b>Net Book Value at 31 March 2019</b>
	<b>£000</b>
The Manor Youth and Community Centre	1,650
Neptune Centre	8,250
Rainbow Centre	8,341
Middlesbrough Sports Village	18,053
Golf Course	573
<b>Total</b>	<b>36,867</b>

## Note 23 Heritage Assets

Heritage assets are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

There were no changes in the valuation of heritage assets during 2018/19. A rolling programme of revaluations is being developed and will be introduced from 2019/20 onwards. A breakdown of the current Heritage Asset valuations is set out below:

	Collections				
	Ceramic	Art	Natural World	Other Cultural Interests	Total
	£000	£000	£000	£000	£000
<b>At 31 March 2018 and 2019</b>	<b>2,082</b>	<b>8,537</b>	<b>9,012</b>	<b>7,751</b>	<b>27,382</b>

### Valuation Methods

The Council's Fine Art collection has been valued by Christies. Ceramics have been valued by MAAK and Jewellery by Galerie Ra (a Dutch gallery). The William Kelly book collection was valued by Sotherbys. The remainder of the Heritage Asset collection has been valued using Insurance valuations on the advice of the Council's curators. Further information on Heritage Assets is included in Note 9 below.

#### Further Information on the Museums' Collections

##### *Ceramics, Porcelains and Figurines*

The Council's British Ceramic Art collection is a growing collection and currently contains around 250 items.

##### *Fine Art Collection*

The Fine Art collection includes over 1,000 works drawn together from the Middlesbrough Art Gallery and Cleveland Gallery.

##### *The Natural World Collection*

The extensive natural science collections number approximately 250,000 specimens covering geology, vertebrate zoology, invertebrate zoology and botany.

##### *Preservation and Management*

The collections are managed by Museum curators in accordance with policies as detailed in the Museum's Collection Management Plan.

##### *Other Cultural Interests*

Items classified under this heading include the Bottle of Notes, statues and memorials including the Brian Clough statue, the William Kelly book collection and various medals and memorabilia located at the captain cook Museum.

## Note 24 Investment Properties

Investment Properties are properties (land, buildings or part thereof) held **solely** to earn rentals or for capital appreciation or both. If earning rental income was an outcome of a regeneration policy or to fund facilities to attract public and businesses in to the town, the properties concerned should be accounted for as Property, Plant and Equipment.

2017/18		2018/19
£000		£000
<b>2,389</b>	<b>Balance at start of the year</b>	<b>2,546</b>
	<b>Additions</b>	0
0	Purchases	0
0	Donated	0
(68)	Disposals	0
125	Net gains from fair value adjustments	64
	<b>Transfers</b>	
100	(To)/From Property, Plant and Equipment	0
<b>0</b>	<b>Other Changes</b>	<b>0</b>
<b>2,546</b>	<b>Balance at end of the year</b>	<b>2,610</b>

There are currently only 11 property assets under this classification which have all been revalued during the 18/19 financial year due to them being held at fair/market value.

### Fair Value Hierarchy

All the Council's investment portfolio has been assessed as level 3 for valuation purposes.

### Valuation Techniques Used to Determine Level 3 Fair Values for Investment Properties

The Council's Investment assets are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements and there is no reasonably available information that indicates that market participants would use different assumptions.

### Highest and Best Use of Investment Properties

In estimating the fair value of the Council's investment properties, the highest and best use of the properties is considered.

Rental income from Investment Properties and any associated operating expenses are included in the Financing and Investment Activities line in the Comprehensive Income and Expenditure Statement. Details are set out below.

2017/18		2018/19
£000		£000
(5)	Rental Income from Investment Property	(17)
0	Direct operating expenses arising from Investment Property	0
<b>(5)</b>	<b>Net Gain</b>	<b>(17)</b>

There are no restrictions on the Council's ability to realise the value inherent in its investment properties or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

## Note 25 Financial Instruments

Financial Instruments are any contract giving rise to a financial asset in one organisation and a financial liability of another organisation. This covers – investments, cash, debtors, creditors, accruals, loans, finance leases, derivatives and guarantees.

### Financial Instruments: Balances

The investments and borrowing disclosed in the Balance Sheet are made up of the following categories of Financial Instruments.

Long Term			Short Term	
As at 31 March 2018	As at 31 March 2019		As at 31 March 2018	As at 31 March 2019
£000	£000		£000	£000
		<b>Financial Assets – Loans and Receivables</b>		
		<b>Held as Investments</b>		
309	309	Long Term Investments	0	0
0	0	Short Term Investments	11,000	10,000
0	0	Cash and Cash Equivalents	9,111	3,450
<b>309</b>	<b>309</b>	<b>Total Investments</b>	<b>20,111</b>	<b>13,450</b>
		<b>Held as Debtors</b>		
8,110	10,884	Long Term Debtors	0	0
0	0	Short Term Debtors	11,267	10,343
<b>8,110</b>	<b>10,884</b>	<b>Total Debtors</b>	<b>11,267</b>	<b>10,343</b>
<b>8,419</b>	<b>11,193</b>	<b>Total Financial Assets – Loans and Receivables</b>	<b>31,378</b>	<b>23,793</b>
		<b>Financial Liabilities – at Amortised Cost</b>		
		<b>Held as Borrowings</b>		
(142,803)	(149,344)	Long Term Borrowing	0	0
0	0	Short Term Borrowing	(14,032)	(13,203)
<b>(142,803)</b>	<b>(149,344)</b>	<b>Total Borrowings</b>	<b>(14,032)</b>	<b>(13,203)</b>
		<b>Held as Other Payables</b>		
0	0	Short Term Creditors	(4,689)	(5,896)
(1,880)	(1,733)	Long Term Creditors	0	0
<b>(1,880)</b>	<b>(1,733)</b>	<b>Total Held as Other Payables</b>	<b>(4,689)</b>	<b>(5,896)</b>
<b>(144,683)</b>	<b>(151,077)</b>	<b>Total Financial Liabilities – at Amortised Cost</b>	<b>(18,721)</b>	<b>(19,099)</b>

There were no gains or losses relating to financial instruments arising in either year.

The increase in the value of long term borrowing above reflects the financing need from the 2018/19 capital programme less any debt maturities repaid during the financial year.

## Note 26 Financial Instruments: Fair Value and Risks

### Fair Value of Assets and Liabilities

Financial Instruments are carried in the Balance Sheet at amortised cost in line with IFRS9. Their fair value has been assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments using the following assumptions:

- Where the instrument will mature in the next 12 months, the carrying amounts are assumed to be approximate to fair value.
- The fair value of PWLB and market loans have been calculated by reference to the 'premature repayment' set of rates as at 31 March 2019
- The fair value of trade payables and other receivables is taken to be the invoiced or billed amount
- The carrying amounts of all other instruments are taken to be a reasonable approximation of fair value
- The fair values are as follows:

2017/18			2018/19	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000		£000	£000
		<b>Financial Assets – Loans and Receivables</b>		
20,420	20,420	Held as Investments	13,759	13,582
20,782	20,782	Held as Debtors	21,226	21,226
<b>41,202</b>	<b>41,202</b>	<b>Financial Assets – Loans and Receivables</b>	<b>34,985</b>	<b>34,808</b>
		<b>Financial Liabilities – as Amortised Cost</b>		
(156,836)	(218,220)	Held as Borrowings	(162,547)	(204,445)
(6,569)	(6,569)	Held as Creditors	(5,896)	(5,896)
<b>(163,405)</b>	<b>(224,789)</b>	<b>Financial Liabilities – at Amortised Cost</b>	<b>(168,443)</b>	<b>(210,341)</b>

### Financial Instruments: Risks

The fair value of the liabilities is 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 different to prevailing rates at the Balance Sheet date.

### **Nature and Extent of Risks Arising from Financial Instruments**

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

- Credit risk - the possibility that the counterparty to a financial instrument will fail to meet its contractual obligations, causing a monetary loss to the Council.
- Liquidity risk - the possibility that the Council might not have the cash available to make contracted payments on time.
- Market risk - the possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates on equity prices.
- Re-Financing Risk – The possibility that maturing amounts cannot be refinanced in interest terms that reflect the provisions made by the organisation.

### Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework in the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and Investment Guidance issued through the Act. Overall, these procedures require the

Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice.
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - The Council's overall borrowing.
  - Its maximum and minimum exposures to fixed and variable rates.
  - Its maximum and minimum exposures to the maturity structure of its debt.
  - Its maximum annual exposures to investments maturing beyond a year.

These are required to be reported and approved at or before the Council's Annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the Annual Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

The Annual Treasury Management Strategy which incorporates the prudential indicators was approved by the Council on 2 March 2019 and is available on the Council's website. The key issues within the strategy were:

- The Authorised Limit for 2018/19 was set at £215.9m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £195.5m. This is the expected maximum level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 40%, respectively, based on the Council's net debt.

These policies were implemented by the Council's Financial Governance Team and at no point during the 2018/19 financial year were any of these key indicators breached. The Council also maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and were also last updated on 2 March 2019 following a service review of the accountancy team.

## **Credit Risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Treasury Management Strategy, which requires that deposits are not made with banks and financial institutions unless they meet minimum credit criteria, as laid down by Fitch and Moody's Ratings Services. The Annual Treasury Management Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after this initial criteria is applied. Details of the Treasury Management Strategy can be found on the Council's website.

The Council's maximum exposure to credit risk in relation to its deposits with banks and building societies of £3.5m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution.

Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of non-recovery applies to all of the Council's deposits.

The following analysis summarises the Council's maximum exposure to credit risk on other financial assets, based on experience of default.

	Amount at 31 March 2019 (A)	Historical experience of default (B)	Maximum exposure at 31 March 2019 (A x B)	Maximum Exposure as 31 March 2018
	£000	%	£000	£000
Bonds	0	0	0	0
Customers	0	0	0	6
<b>TOTAL</b>				<b>6</b>

No credit limits were exceeded during the period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The Council does not generally allow credit for customers. However £9,212m of the £10,956m invoiced debtors balance is past its due date for payment relating principally to the Council's Public Health responsibilities.

The past due amount can be analysed by age as follows:

2017/18		2018/19
£000		£000
6,561	Less than 3 months	5,215
456	Between 3 to 6 months	1,079
532	Between 6 months to 1 year	1,353
1,514	More than 1 year	1,565
<b>9,063</b>	<b>TOTAL</b>	<b>9,212</b>

Collateral - The Council initiates a legal charge on property where, for instance, Adult Social Care service users require residential care but cannot afford to pay immediately. The total collateral as at 31 March 2019 was £1.05m. (31 March 2018 - £0.8m)

### **Liquidity Risk**

The Council has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowing at a time of unfavourable interest rates. The Council sets limits on the proportion of its fixed rate borrowing during specified periods.

The maturity analysis of financial liabilities is as follows:

2017/18		2018/19
£000		£000
(14,829)	Less than 1 Year	(13,203)
(14,524)	Between 1 – 2 Years	(12,135)
(17,137)	Between 2 – 5 Years	(18,813)
(28,419)	Between 5 – 10 Years	(33,345)
(9,924)	Between 10 – 15 Years	(12,501)
(4,924)	Between 15 – 20 Years	(9,913)
(9,899)	Between 20 – 25 Years	(4,899)
98	Between 25 – 30 Years	96
(8,412)	Between 30 – 35 Years	(15,412)
(9,491)	Between 35 – 40 Years	(12,421)
(40,000)	More than 40 Years	(30,000)
<b>(157,461)</b>	<b>TOTAL</b>	<b>(162,546)</b>

All trade and other payables are due to be paid in less than one year.

### **Re-financing Risk**

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

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments made for greater than one year in duration are the key parameters used to address this risk. The Council's approved treasury and investment strategies address the main risks and the financial governance team address the operational risks within the approved parameters.



## **Market Risk**

### ***Market Risk - Interest Rate Risk***

In the current financial climate there is a low interest rate risk to the Council. All longer term borrowing is held at fixed rate and any risk of further reductions in rates receivable is insignificant given the current low base. Borrowings and Investments are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure Statement.

The Council aims to keep a maximum of 30% of its borrowings in variable rate loans. 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.

Although there is continued uncertainty in relation to the Brexit outcome for the Country, and this may influence interest rates in both a positive and negative way, the low exposure to variable rate financial instruments means that the financial impact of any future decisions in this area are likely to have minimal impact on both the debt and investment portfolios.

### ***Market Risk - Price Risk***

The Council does not invest in equity shares and therefore has no exposure to losses arising from movements in share prices.

### ***Market Risk - Foreign Exchange Risk***

The Council has no financial assets or liabilities denominated in foreign currencies and therefore no exposure to loss arising from movements in exchange rates.

## **Note 27 Financial Instruments: Income and Expenditure**

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

2017/18			2018/19	
Financial Assets	Financial Liabilities		Financial Assets	Financial Liabilities
£000	£000		£000	£000
		<b>Income</b>		
(446)	(0)	Interest Income	(451)	
		<b>Expenditure</b>		
0	4,580	Interest Expense		5,255
0	24	Fee Expense		9
<b>0</b>	<b>4,604</b>	<b>Total Expenditure</b>		<b>5,264</b>
	<b>4,158</b>	<b>Net Expenditure for the year</b>		<b>4,813</b>

## Note 28 Cash and Cash Equivalents

31 March 2018		31 March 2019
£000		£000
72	Cash held by the Council	76
1,609	Bank current accounts	(126)
7,430	Short-term deposits	3,500
<b>9,111</b>	<b>Total</b>	<b>3,450</b>

## Note 29 Capital Expenditure and Capital Financing

The total amount of capital expenditure in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

2017/18		2018/19
£000		£000
<b>175,943</b>	<b>Opening Capital Financing Requirement</b>	<b>185,173</b>
	<b>Capital Investment</b>	
29,549	Property, Plant and Equipment	22,587
41	Assets Held for Sale	23
2,158	Intangible Assets	1,073
1,250	Long Term Debtors	0
5,525	Revenue Expenditure Funded from Capital under Statute	8,723
<b>38,523</b>	<b>Total Capital Investment</b>	<b>32,406</b>
	<b>Sources of Finance</b>	
(5,716)	Capital Receipts	(4,391)
(81)	Revenue Expenditure Funded from Capital under Statute – Grant Received	(2,117)
(19,844)	Government Grants and other contributions applied in year	(12,801)
	<b>Sums Set Aside from Revenue</b>	
(53)	Direct revenue contributions	(31)
(3,599)	MRP/Loans Fund Principal	(3,004)
<b>185,173</b>	<b>Closing Capital Financing Requirement</b>	<b>195,235</b>
	<b>Explanation of Movement in Year</b>	
12,828	Increase in underlying need to borrow (unsupported by government assistance)	13,066
0	Reduction in Long Term Debtors	0
(3,599)	MRP/loans fund Principal	(3,004)
<b>9,230</b>	<b>Increase in Capital Financing Requirement</b>	<b>10,062</b>

The capital investment figure above includes £31.507 million as a direct result of the Capital programme plus and additional £0.899 million on donated assets (mainly adopted roads)

## Note 30 Leases – Council as Lessor

### Operating Leases

The Council leases out property and equipment under operating leases for the following purposes:

- \* For the provision of community services, such as sports facilities, tourism services and community centres.
- \* For economic development purposes to provide suitable affordable accommodation for local businesses.

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

31 March 2018 £000		31 March 2019 £000
1,593	No Later than 1 year	2,125
4,875	Later than 1 year and not later than 5 years	4,925
33,484	Later than 5 years	29,657
<b>39,952</b>	<b>Total</b>	<b>36,707</b>

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. These amounts are not disclosed due to the inherent uncertainties surrounding them.

## Note 31 Leases – Council as Lessee

### Operating Leases

The Council has entered into operating leases for the use of land and buildings, with lives ranging from 10 to 35 years.

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

31 March 2018 £000		31 March 2019 £000
6	No Later than 1 year	295
23	Later than 1 year and not later than 5 years	1,106
3	Later than 5 years	870
<b>32</b>	<b>Total</b>	<b>2,271</b>

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

31 March 2018 £000		31 March 2019 £000
6	Minimum lease payments	310

## Note 32 Intangible Assets

The Council's Intangible Assets consist wholly of purchased IT licenses and software. A breakdown of The movement on Intangible Asset balances during the year is as follows:

2017/18		2018/19
£000		£000
	<b>Balance at Start of Year</b>	
8,667	Gross Carrying Amount	10,753
(4,132)	Accumulated amortisation	(5,791)
<b>4,535</b>	<b>Net Carrying amount at start of the year</b>	<b>4,962</b>
2,158	Additions : purchases	1,073
(1,731)	Amortisation for the period	(2,048)
0	Disposals	0
<b>4,962</b>	<b>Net Carrying amount at the end of the year</b>	<b>3,987</b>
	Comprising:	
10,753	Gross Carrying amount	11,826
(5,791)	Accumulated amortisation	(7,839)
<b>4,962</b>	<b>Net Carrying amount at the end of the year</b>	<b>3,987</b>

## Note 33 Assets Held for Sale

If an asset is 'held for sale', the economic benefit of that asset is obtained through the asset's sale rather than through its continuous use in the business (future economic benefit). Such assets cease to be depreciated as they are no longer being consumed through service provision by the business.

The Council currently has seven Assets Held for Sale. Vancouver House has now been transferred from long-term Assets Held for Sale as it is expected to complete in 2019/20. The other assets have been transferred from Property, Plant and Equipment to a Short Term Asset Held for Sale in accordance with the requirements of IFRS 5. The main item being Land held at the Former Brackenhoe School at a value of £4.6m.

2017/18		2018/19
£000		£000
	<b>Short Term Assets Held for Sale</b>	
<b>750</b>	<b>Balance outstanding at start of year</b>	<b>0</b>
0	Transferred between Long-Term and Current Assets Held for Sale	985
	<b>Assets newly classified as held for sale</b>	
0	Transferred from Property, Plant and Equipment	5,612
0	Additions	23
0	Revaluation losses	(139)
0	Revaluation gains	219
	<b>Assets declassified as held for sale:</b>	
0	Assets sold	0
(750)	Transferred to Property, Plant and Equipment	0
<b>0</b>	<b>Balance outstanding at year end</b>	<b>6,700</b>

2017/18		2018/19
£000		£000
	<b>Long Term Assets Held for Sale</b>	
0	<b>Balance outstanding at start of year</b>	<b>985</b>
0	Transferred between Long-Term and Current Assets Held for Sale	(985)
	<b>Assets newly classified as held for sale</b>	
3,332	Transferred from Property, Plant and Equipment	0
41	Additions	0
(2,388)	Revaluation losses	0
<b>985</b>	<b>Balance outstanding at year end</b>	<b>0</b>

## Note 34 Debtors

31 March 2018		31 March 2019
£000		£000
	<b>Short Term Debtors</b>	
3,411	Central Government Bodies	3,558
9,080	Other Local Authorities	7,367
4,472	NHS Bodies	2,982
20,925	Other entities and individuals	24,960
<b>37,888</b>	<b>Total</b>	<b>38,867</b>
	<b>Long Term Debtors</b>	
6,539	Cleveland Mall – Holiday Inn	6,167
195	Other Long Term Debtors	286
1,377	The Welding Institute	4,431
<b>8,110</b>	<b>Total</b>	<b>10,884</b>

## Note 35 Short Term Creditors

31 March 2018		31 March 2019
£000		£000
(7,156)	Central Government Bodies	(7,722)
(1,230)	Other Local Authorities	(2,238)
(1,033)	NHS Bodies	(550)
(29,014)	Other Entities and individuals	(26,045)
<b>(38,433)</b>	<b>Total</b>	<b>(36,555)</b>

## Note 36 Inventories

2018/19 Financial Year	1 April 2018	Purchases	Expense in the year	Written off	31 March 2019
	£000	£000	£000	£000	£000
Stocks	2,121	5,684	(5,518)	29	2,316

2017/18 Financial Year	1 April 2017	Purchases	Expense in the year	Written off	31 March 2018
	£000	£000	£000	£000	£000
Stocks	1,988	7,120	(7,005)	18	2,121

## Note 37 Provisions

A provision is recognised in the accounts where the Council has a legal or constructive obligation arising from a past event and a reliable estimate can be made of the amount of the obligation if not the timing of when the Council will have to settle the obligation.

Current Provisions	Balance at 1 April 2018	Additional Amount in year	Amounts used in year	Balance at 31 March 2019
	£000	£000	£000	£000
Business Rates Appeals	(2,041)	(2,587)	2,041	(2,587)
School Kitchen Replacement	(4)	0	4	0
<b>Total</b>	<b>(2,045)</b>	<b>(2,587)</b>	<b>2,045</b>	<b>(2,587)</b>

**Business Rates Appeals** – The Council's share of the Collection Fund Business Rates Appeals Provision of £2,587,470 is split as £1,558,409 Short Term and £1,029,061 Long Term as projected using the Council's Business Rate Appeals tool.

## Note 38 Usable Reserves

Usable Reserves are those reserves that can be used to fund future expenditure or reduce local taxation. Further details on the use of the reserves below can be found in the Movement in Reserves Statement.

2017/18		2018/19
£000		£000
(7,656)	Capital Grants Unapplied Reserve	(8,341)
(286)	Capital Contributions Unapplied Reserve	(4,819)
(2)	Capital Receipts Reserve	(77)
(15,152)	Uncommitted General Fund	(11,904)
(26,321)	Earmarked Reserves	(21,525)
<b>(49,417)</b>	<b>Total</b>	<b>(46,666)</b>

The purpose of each Reserve is as follows:

### **Capital Grants Unapplied Reserve**

This reserve holds amounts from Capital Grants that have been recognised in the Comprehensive Income and Expenditure Statement but for which the associated capital expenditure has not yet been incurred.

### **Capital Receipts Reserve**

This reserve holds amounts received from the disposal of assets and is only available to fund future capital projects.

### General Fund

The accumulated credit balance on the general fund is the excess of income over expenditure in the revenue account after adjusting for movements to and from reserves and other non-cash items. This balance is held as a cushion against future unforeseen and unbudgeted expenditure.

### Earmarked Reserves

Funding set- a-side from General Fund balances to provide financing for future specific expenditure plans. Details of the balances on individual earmarked reserves is contained overleaf in note 7.

## Note 39 Unusable Reserves

Unusable Reserves are those reserves held by the Council that cannot be utilised to provide services. This includes reserves that hold unrealised gains and losses and adjustment accounts which deal with situations where income and expenditure are recognised statutorily against the General Fund balance on a different basis from that expected by accounting standards as adopted by the Code.

2017/18		2018/19
£000		£000
(97,485)	Revaluation Reserve	(81,265)
(210,165)	Capital Adjustment Account	(163,835)
(2)	Deferred Capital Receipts Reserve	(2)
200,398	Pensions Reserve	188,296
683	Collection Fund Adjustment Account	(860)
1,562	Accumulating Compensated Absences Adjustment Account	1,081
<b>(105,009)</b>	<b>Total Unusable Reserves</b>	<b>(56,585)</b>

A description of each type of reserve is set out below:

### Revaluation Reserve

The Revaluation Reserve contains the accumulated net gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The reserve only contains revaluation gains accumulated since 1 April 2007, the date when the Revaluation Reserve was constituted. Accumulated gains and losses accumulated before that date are consolidated into the Capital Adjustment Account. Amounts contained within this reserve will only become available to provide services (or limit resources in the case of losses) once the gains/losses are realised as the assets are disposed of.

### Capital Adjustment Account

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

The Account also contains accumulated gains and losses on Investment Property and gains recognised on donated assets as well as revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

### Deferred Capital Receipts Reserve

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

### Pension Reserve

This reserve is used to reconcile the payments made for the year to various statutory pension schemes and the

net change in the Council's recognised liability under IAS19 – Employee Benefits, for the same period.

#### **Collection Fund Adjustment Account**

The Collection Fund Adjustment Account holds the differences arising from the recognition of council tax and business rates income, in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

#### **Accumulated Compensated Absences Adjustment Account**

The Accumulated Compensated Absences Adjustment Account reflects the value of compensated absences (employees time off with pay for holidays) earned but not taken in the year.

#### **Movement in Unusable Reserves Statement 2018/19**

<b>Movement in Reserves Statement</b>	<b>Revaluation Reserve</b>	<b>Capital Adjustment Account</b>	<b>Deferred Capital Receipts Reserve</b>	<b>Pensions Reserve</b>	<b>Collection Fund Adjustment Account</b>	<b>Accumulated Compensation Absences Adjustment Account</b>	<b>Total Unusable Reserves</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Balance at 1 April 2018</b>	<b>(97,485)</b>	<b>(210,165)</b>	<b>(2)</b>	<b>200,398</b>	<b>683</b>	<b>1,562</b>	<b>(105,009)</b>
Allocated from Other Comprehensive Income and Expenditure	(10,419)	0	0	(25,779)	0	0	<b>(36,198)</b>
Transfers from Usable Reserves (Note 6)		72,971	0	13,676	(1,543)	(481)	<b>84,623</b>
Difference between fair value and historical cost depreciation	1,560	(1,560)	0	0	0	0	<b>0</b>
Accumulated Revalued Amount on assets sold or scrapped	25,080	(25,080)	0	0	0	0	<b>0</b>
<b>Balance at 31 March 2019</b>	<b>(81,265)</b>	<b>(163,835)</b>	<b>(2)</b>	<b>188,296</b>	<b>(860)</b>	<b>1,081</b>	<b>(56,585)</b>



### Movement in Unusable Reserves Statement 2017/18

Movement in Reserves Statement	Revaluation Reserve	Capital Adjustment Account	Deferred Capital Receipts Reserve	Pensions Reserve	Collection Fund Adjustment Account	Accumulated Compensation Absences Adjustment Account	Total Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 1 April 2017</b>	<b>(81,185)</b>	<b>(217,138)</b>	<b>(4)</b>	<b>191,349</b>	<b>(722)</b>	<b>1,620</b>	<b>(106,080)</b>
Allocated from Other Comprehensive Income and Expenditure	(21,892)	0	0	(3,176)	0	0	<b>(25,068)</b>
Transfers from Usable Reserves (Note 29)	0	12,565	2	12,225	1,405	(58)	<b>26,139</b>
Difference between fair value and historical cost depreciation	2,297	(2,297)	0	0	0	0	<b>0</b>
Accumulated Revalued Amount on assets sold or scrapped	3,295	(3,295)	0	0	0	0	<b>0</b>
<b>Balance at 31 March 2018</b>	<b>(97,485)</b>	<b>(210,165)</b>	<b>(2)</b>	<b>200,398</b>	<b>683</b>	<b>1,562</b>	<b>(105,009)</b>

## Note 40 Pension Schemes Accounted for as Defined Benefit Scheme

The Local Government Pension Scheme is accounted for as a defined benefit scheme. As part of the terms and conditions of employment of its staff, 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 need to be disclosed at the time that employees earn their future entitlement.

### Funded Benefits

The funded benefits are those payable by the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulation 2014.

### Unfunded Benefits

The unfunded benefits are pensions arising from additional service awarded on a discretionary basis e.g. Compensatory Added Years ("CAY") pensions that have not previously been 'converted' to funded benefits under Regulation 13A of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007. Such benefits are usually charged to the Employer as they are paid. Other unfunded benefits include gratuities and enhanced teachers' pensions recharged to the Employer, and pensions in respect of some other public sector pension schemes. This is in contrast to funded pensions, which are paid for out of the assets of the Fund, and which the Employer has responsibility for funding by paying contributions to the Fund.

### Transactions relating to Post-Employment Benefits

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year in relation to the Local Government Pension Scheme:

#### Comprehensive Income and Expenditure Statement

Funded 2017/18	Unfunded 2017/18	Comprehensive Income and Expenditure Statement	Funded 2018/19	Unfunded 2018/19
£000	£000	Charged to the Surplus or Deficit on the Provision of Services	£000	£000
		As cost of Service:		
19,412	0	Current Service cost	20,350	0
193	0	Settlements and Curtailments	464	0
3,870	764	As Financing and Investment Income and Interest on net defined benefit	4,274	779
<b>23,475</b>	<b>764</b>	<b>Total charged to the Deficit on the Provision of Services</b>	<b>25,088</b>	<b>779</b>
		<b>Charged to Other Comprehensive Income and Expenditure</b>		
(3,475)	299	Actuarial Gains / (Losses)	(25,410)	(368)
<b>20,000</b>	<b>1,063</b>	<b>Total to the Comprehensive Income and Expenditure Statement</b>	<b>(322)</b>	<b>411</b>

#### Movement in Reserves Statement (General Fund)

Funded 2017/18	Unfunded 2017/18	Movement in Reserves Statement (General Fund)	Funded 2018/19	Unfunded 2018/19
£000	£000			
(23,475)	(764)	Reversal of total charged to the Deficit on the Provision of Service	(25,088)	(779)
		<b>Actual Amount charged for pensions in the year:</b>		
10,060	1,954	Employers contributions payable to scheme	10,816	1,375
<b>(13,415)</b>	<b>1,190</b>	<b>Total amount included in the General Fund for the year</b>	<b>(14,272)</b>	<b>596</b>

## Assets and Liabilities in Relation to Post-Employment Benefits

Funded 2017/18	Unfunded 2017/18	Reconciliation of Liabilities	Funded 2018/19	Unfunded 2018/19
£000	£000		£000	£000
<b>(864,112)</b>	<b>(31,532)</b>	<b>Opening Balance at 1 April</b>	<b>(888,117)</b>	<b>(30,641)</b>
(19,412)	0	Current service cost	(20,350)	0
(21,343)	(764)	Interest cost	(22,827)	(779)
(4,038)	0	Contributions by scheme participants	(4,273)	0
(4,216)	(299)	Actuarial (losses)	(14,810)	368
25,197	1,954	Benefits paid	24,988	1,375
(193)	0	Past service curtailments	(464)	0
<b>(888,117)</b>	<b>(30,641)</b>	<b>Closing Balance at 31 March</b>	<b>(925,853)</b>	<b>(29,677)</b>

## Reconciliation of Fair Value of Scheme Assets

Funded 2017/18	Unfunded 2017/18	Reconciliation of Fair Value of Scheme Assets	Funded 2018/19	Unfunded 2018/19
£000	£000		£000	£000
<b>704,295</b>	<b>0</b>	<b>Opening Balance at 1 April</b>	<b>718,360</b>	<b>0</b>
17,473	0	Expected return on plan assets	18,553	0
7,691	0	Actuarial Gains	40,220	0
10,060	1,954	Employer contributions	10,816	1,375
4,038	0	Contributions by scheme participants	4,273	0
(25,197)	(1,954)	Benefits paid	(24,988)	(1,375)
<b>718,360</b>	<b>0</b>	<b>Closing Balance at 31 March</b>	<b>767,234</b>	<b>0</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £58.773 million gain (2017/2018 £25.164 million gain).

Scheme History	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019
	£000	£000	£000	£000	£000	£000
Present value of liabilities	(691,655)	(771,686)	(760,739)	(895,644)	(918,758)	(955,530)
Fair value of assets	558,838	596,527	575,103	704,295	718,360	767,234
<b>Scheme Deficit</b>	<b>(132,817)</b>	<b>(175,159)</b>	<b>(185,636)</b>	<b>(191,349)</b>	<b>(200,398)</b>	<b>(188,296)</b>

The scheme deficit shown above includes £29,677 million in respect of unfunded defined benefit obligations (2017/2018 £30.641 million).

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The net liability has a sustained impact on the net worth of the Council as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy because:

- the deficit on the scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the Scheme actuary.
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31st March 2019 is £10.816 million.

### Independent Actuary and Latest Valuation

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both the Local Government Pension Scheme and Discretionary Benefits Liabilities have been assessed by Aon Hewitt, an independent firm of actuaries, estimates for the Teesside Pension Fund being based on latest full valuation of the scheme as at 31 March 2016.

The principal assumptions used by the actuary have been:

	2017/18	2018/19
<b>Mortality Assumptions</b>		
Longevity at 65 for current pensioners		
• Men	22.90	22.20
• Women	25.00	24.10
Longevity at 65 for future pensioners		
* Men	25.10	23.90
* Women	27.30	25.90
<b>Other Assumptions</b>		
Rate of Inflation (RPI)	3.20%	3.30%
Rate of Inflation (CPI)	2.10%	2.20%
Rate of increase in salaries	3.10%	3.20%
Rate of increase in pensions	2.10%	2.20%
Rate of discounting scheme liabilities	2.60%	2.40%
<b>Take up of option to convert annual pension into retirement lump sum</b>	<b>80.00%</b>	<b>80.00%</b>

The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	2017/18	2018/19
Equity Investments	81.6%	74.00%
Gilts	0.0%	0.0%
Other Bonds	0.0%	0.0%
Property	7.3%	9.2%
Cash / Liquidity	11.1%	16.8%
	<b>100.0%</b>	<b>100.0%</b>

### Sensitivity Analysis

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2018 and the projected service cost for the year ending 31 March 2019 is set out below, sensitivity on unfunded benefits have not been included on materiality grounds:

<b>Disclosure rate assumption</b>		
Adjustment to discount rate	0.1% p.a.	-0.1% p.a.
Present value of total obligation (£000's)	909,890	942,096
% change in present value of total obligation	-1.7%	1.8%
Projected service cost (£000's)	21,022	22,273
Approximate % change in projected service cost	-2.9%	2.9%

<b>Rate of general increase in salaries</b>		
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Adjustment to salary rate	0.1% p.a.	-0.1% p.a.
Present value of total obligation (£000's)	928,960	922,775
% change in present value of total obligation	0.3%	-0.3%
Projected service cost (£000's)	21,640	21,640
Approximate % change in projected service cost	0	0

<b>Rate of increase to pension in payment and deferred pensions assumption, and the rate of revaluation of pension accounts assumption</b>		
Adjustment to pension increase rate	0.1% p.a.	-0.1% p.a.
Present value of total obligation (£000's)	938,964	912,943
% change in present value of total obligation	1.4%	-1.4%
Projected service cost (£000's)	22,273	21,022
Approximate % change in projected service cost	3.0%	-2.9%

<b>Post retirement mortality assumption</b>		
Adjustment to mortality age rating assumption*	-1 year	+1 year
Present value of total obligation (£000's)	955,788	896,236
% change in present value of total obligation	3.2%	-3.2%
Projected service cost (£000's)	22,486	20,803
Approximate % change in projected service cost	3.9%	-3.9%

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

## Note 41 Pensions Schemes Accounted for as Defined Contribution Scheme

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

In 2018/19 the Council paid £2.50 million (2017/18 – £3.45 million) to Teachers' Pensions in respect of teachers' retirement benefits, representing an average of 16.48% (2017/18 – 16.48%) of pensionable pay. A number of Public Health staff transferred to the Council from the NHS and as part of the conditions of their transfer have remained in the NHS pension scheme.

## Note 42 Contingent Liabilities

At 31 March 2019, the Council had the following contingent liabilities:

### Home House Guarantee

An agreement was entered into with Home Housing, which guaranteed an initial liability of £2.4 million. This was increased to £4.01 million in 1996/1997 as a result of further development at St Johns Gate. The assets of Home Housing are considered sufficient to meet their liabilities without calling upon the guarantee and no provision has been made in the accounts.

### **Family Kinship Payments**

During 2011/2012 the High Court ruled that Local Authorities cannot discriminate against kinship carers, who should receive the full range of payments and benefits which foster carers receive. The existence of any liability in this regard can only be determined based on claims made against the Council.

### **Deprivation of Liberty Safeguards**

A Supreme Court case judgement has resulted in the Council potentially facing more applications to the Court of Protection regarding Deprivation of Liberty cases. Liabilities may exist which will not be confirmed until claims are made or cases settled. The Deprivation of Liberty Safeguards are due to be replaced by the Liberty Protection Safeguards in the spring or Early Summer of 2020; the financial ramifications remain unclear at this time.

### **Guaranteed Minimum Pension**

Guaranteed Minimum Pension (GMP) requirements relate to situations where a pension scheme was 'contracted out' of additional state pension arrangements. If the contracted out pensions benefits are less than the pensioner would have received if the contracting out had not applied the pension scheme would be required to increase the pension paid to reach the GMP. It is currently unclear whether estimates of impact are available for each public sector pension scheme and whether there is sufficient basis for the recognition of a 'past service cost. Discussions with the Council's actuary has suggested that further work is required before any estimate can be placed on the value of this liability for the Teesside Pension Fund and its employers.

### **Pensions Transitions Age Discrimination Arrangements**

The 'McCloud/Sergeant' judgement in the Court of Appeal found that the transitional protection arrangements put in place when the firefighters' and judges' pension schemes were reformed were age discriminatory. The ruling potentially has implications for all public sector schemes which were reformed around the same time (including the LGPS scheme) and could lead to members who were discriminated against being compensated. The Government has applied to the Supreme Court for permission to appeal this judgement. Due to the uncertainty over whether the Government will appeal and what the outcome of this will be this issue is being disclosed only at this stage with no quantification of the financial impact. The Council's actuary will undertake further work on this once the implications are clearer.

## **Note 43 Contingent Assets**

There were no contingent assets held by the Council at the Balance Sheet date.

## Note 44 Trust Funds

The Council administers a number of Trust Funds, which are varied in nature and relate principally to legacies left by local inhabitants of the area over a number of years. Assets of the funds are invested in external marketable securities; with any cash either being invested internally at 7-day interest rates or externally in the money market. None of the funds are included in the Balance Sheet of the Council.

A summary of the Trust Funds administered by the Council is as follow:

	Registered Charity Number – if applicable	Fund Balance at 1 April 2018	Surplus / (Deficit) in 2017/18	Fund Balance at 31 March 2019
		£	£	£
Teesside Education Endowment	514301	7,384	37	7,421
Capt J.V.Nancarrow Trust – Educational support	506937	109,805	557	110,362
Middlesbrough Educational Trust	532293	67,115	329	67,444
Hustler Playing Fields Trust – Sport	523381	1,522,648	(52)	1,522,597
W.M.Anderton Trust – Kings Manor School and Acklam 6 <sup>th</sup> Form College	509198	1,369	7	1,376
Teesside Relief in Sickness	229137	3,910	20	3,930
Lady Crosswaite Bequest – support for the older people	234932	479,459	2,432	481,891
Home Independent Trust *	226433	123,587	313	123,900
Wilson & Marwood Trust – support for disadvantaged people	221291	15,367	76	15,443
Sterwart Park Trust – Recreation	507075	8,661	44	8,705
Levick Trust – accommodation for over 60's	255056	336,377	19	336,396
Captain Cook Birthplace Trust	507317	8,901	94	8,995
Dorman Museum and Art Gallery Appeal Trust	n/a	3,270	17	3,287
<b>Total</b>		<b>2,687,853</b>	<b>3,893</b>	<b>2,691,747</b>

\* Formerly King Edward VII & Sister Purvis

## Notes Supporting the Cash Flow Statement

### Note 45 Cash Flow Statement – Investing and Financing Activities

The table below gives details of cash flow movements relating to the acquisition and disposal of Long Term Assets and Investments that are intended to contribute to the Council's future service delivery.

2017/18		2018/19
£000		£000
(28,652)	Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	(23,479)
500	Net Proceeds on change in Short Term Investments	1,000
0	Cash returned on Long Term Deposits	0
2,321	Proceeds from sale of PPE, Investment Property and Intangible Assets	4,467
<b>(25,831)</b>	<b>Net Cash Flow from Investing Activity</b>	<b>(18,012)</b>

This note shows the movements in cash flows arising from the council's borrowing and other debt related activities.

2017/18		2018/19
£000		£000
(142)	Amounts applied to finance lease repayments (Capital Element)	(146)
19,776	Net repayments of short and long term borrowing	5,746
<b>19,634</b>	<b>Net Cash Flow from Financing Activity</b>	<b>5,600</b>



## Notes Supporting the Expenditure and Funding Analysis

### Note 46 Adjustment between Funding and Accounting Basis

Adjustments between Funding and Accounting Basis				
2018/19				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts:	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Regeneration	11,822	523	450	12,795
Culture, Communities and Communications	2,622	815	1,544	4,981
Improving Public Health	205	417	(3,022)	(2,401)
Education	3,060	0	(2,172)	889
Children's Care	51	2,499	460	3,010
Adult Social Care and Health Integration	(923)	1,599	(264)	413
Environment & Commercial Services	10,875	1,827	5,344	18,045
Finance, Governance & Support	3,020	1,672	4,575	9,266
Prevention and Partnerships	(2)	626	900	1,524
Central Costs	0	(1,355)	(2,378)	(3,732)
<b>Net Cost of Services</b>	<b>30,730</b>	<b>8,623</b>	<b>5,437</b>	<b>44,790</b>
<b>Other Income and Expenditure from the Expenditure and Funding Analysis</b>	<b>39,980</b>	<b>5,053</b>	<b>(2,888)</b>	<b>42,145</b>
<b>Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>70,710</b>	<b>13,676</b>	<b>2,549</b>	<b>86,935</b>

Adjustments between Funding and Accounting Basis				
2017/18				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts:	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Regeneration	10,682	466	4,494	15,642
Culture, Communities and Communications	997	692	830	2,519
Improving Public Health	1,715	279	(3,975)	(1,981)
Education	3,830	0	(1,219)	2,611
Children's Care	702	2,382	327	3,411
Adult Social Care and Health Integration	880	1,395	243	2,518
Environment & Commercial Services	9,892	1,783	5,512	17,187
Finance, Governance & Support	3,279	1,352	3,962	8,593
Prevention and Partnerships	51	538	(272)	317
Central Costs	0	(1,296)	(11,992)	(13,288)
<b>Net Cost of Services</b>	<b>32,028</b>	<b>7,591</b>	<b>(2,090)</b>	<b>37,529</b>
<b>Other Income and Expenditure from the Expenditure and Funding Analysis</b>	<b>(10,864)</b>	<b>4,634</b>	<b>329</b>	<b>(5,901)</b>
<b>Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>21,164</b>	<b>12,225</b>	<b>(1,761)</b>	<b>31,628</b>

## Note 47 Expenditure & Funding Analysed by Nature

The authority's income and expenditure is analysed as follows:

<b>Expenditure &amp; Income Analysed by Nature</b>		
	<b>2017/18 £000</b>	<b>2018/19 £000</b>
<b>Expenditure</b>		
Employees	155,137	148,661
Other Service Expenditure	248,471	244,276
Depreciation and other Capital Charges	41,913	95,567
Interest Payments	4,580	5,124
Precepts and Levies	136	134
<b>Total Expenditure</b>	<b>450,237</b>	<b>493,762</b>
<b>Income</b>		
Government Grants and Contributions	(268,519)	(259,739)
Income from Council Tax and Non Domestic Rates	(65,500)	(70,253)
Interest and Investment Income	(441)	(749)
Fees, Charges and Other Service Income	(84,435)	(75,647)
<b>Total Income</b>	<b>(418,895)</b>	<b>(406,388)</b>
<b>Deficit on the Provision of Services</b>	<b>31,342</b>	<b>87,374</b>

Although the Expenditure and Funding Statement is not a core statement as prescribed in the accounting code of practice, it has been included under the Financial Statements heading rather than as a note to the accounts in order to highlight the linkage between this statement and the Comprehensive Income and Expenditure Statement.

# 4. Collection Fund Accounts



*Temenos*

## Collection Fund Income and Expenditure Account

The Collection Fund summarises the transactions of the billing authority in relation to the collection from taxpayers and the redistribution to Local Authorities and the Government of Council Tax and Business Rates.

2017/18		2018/19		
£000		£000	£000	£000
Total		Council Tax	Business Rates	Total
	<b>Income</b>			
(60,733)	Council Tax receivable	(64,561)	0	(64,561)
(34,679)	Business Rates receivable	0	(37,737)	(37,737)
(95,412)	<b>Total Income</b>	<b>(64,561)</b>	<b>(37,737)</b>	<b>(102,298)</b>
	<b>Expenditure</b>			
	<b>Precepts and Demands:</b>			
49,134	Middlesbrough Council	51,894	0	51,894
7,064	Cleveland Police and Crime Commissioner	7,503	0	7,503
2,405	Cleveland Fire Authority	2,490	0	2,490
	<b>Business Rates</b>			
17,194	Payments to Central Government	0	17,672	17,672
344	Payments to Cleveland Fire Authority	0	353	353
16,851	Payments to Middlesbrough Council	0	17,319	17,319
172	Costs of Collection	0	173	173
	<b>Bad &amp; Doubtful Debts</b>			
816	Write Offs	263	12	275
521	Provision for Bad Debts	1,652	359	2,011
2,664	Provision for Appeals	0	1,117	1,117
97,165	<b>Total Expenditure</b>	<b>63,802</b>	<b>37,005</b>	<b>100,807</b>
	<b>Contributions towards previous year's estimate</b>			
438	Collection Fund Deficit / (Surplus)	843	(2,561)	(1,718)
2,191	<b>Deficit / (Surplus) for the Year</b>	<b>84</b>	<b>(3,293)</b>	<b>(3,209)</b>
	<b>COLLECTION FUND BALANCE</b>			
(156)	Balance brought forward at 1 April	(899)	2,934	2,035
2,191	Deficit / (Surplus) for the year (as above)	84	(3,293)	(3,209)
2,035	<b>Balance carried forward at 31 March</b>	<b>(815)</b>	<b>(359)</b>	<b>(1,174)</b>
	<b>Allocated to:</b>			
684	Middlesbrough Council	(683)	(176)	(859)
(108)	Cleveland Police and Crime Commissioner	(99)	0	(99)
(8)	Cleveland Fire Authority	(33)	(4)	(37)
1,467	Central Government	0	(179)	(179)
2,035		<b>(815)</b>	<b>(359)</b>	<b>(1,174)</b>

## Notes to the Collection Fund

### Note 1 Income from Council Tax

#### Calculation of the Council Tax base

The Council Tax replaced the Community Charge on the 1 April 1993 and is a tax based on property valuation bandings (A to H). There is a basic tax for the middle band (Band D) with proportionately higher and lower taxes for the other bands. The Council's tax base i.e. the number of chargeable dwellings in each band (adjusted for discounts where applicable), converted to an equivalent number of Band D dwellings was calculated as follows:

Band	Estimated No. of Taxable Properties after Discounts	Ratio	Band D Equivalent Council Tax	Band D Equivalent Dwellings
			£000	
A*	40	+5/9	35	22
A	16,806	+6/9	17,555	11,204
B	7,688	+7/9	9,369	5,980
C	8,732	+8/9	12,161	7,762
D	4,444	+9/9	6,963	4,444
E	2,051	+11/9	3,928	2,507
F	727	+13/9	1,645	1,050
G	461	+15/9	1,204	768
H	30	+18/9	94	60
	<b>40,979</b>		<b>52,954</b>	<b>33,797</b>
Less: Adjustments for assumed non-collection based on budgets assumption of 97.4% collection rate			(1,059)	(676)
<b>Total</b>			<b>51,895</b>	<b>33,121</b>

A\* - Band A properties receiving Disabled Relief

The average Council Tax for band D dwellings for Middlesbrough Council was £1,566.81

### Note 2 Income from Business Rates

In 2013/2014, the administration of Non Domestic Rates (NDR) changed following the introduction of a business rates retention scheme which aims to give Councils a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates. Instead of paying NDR to the central pool, local authorities retain a proportion of the total collectible rates due. In Middlesbrough's case the local share is 49%. The remainder is distributed to the preceptors, which for Middlesbrough are Central Government (50%) and Cleveland Fire Authority (1%).

The total non-domestic rateable value at 31 March 2019 was £104,090,936 (£103,507,154) at 31 March 2018) and the national non-domestic multiplier for the year was 49.3p (47.9p in 2017/18).

### Note 3 Previous Years Council Tax Deficit / Surplus

The Council has a statutory requirement to provide details each January of the projected Council Tax deficit or surplus at the end of the financial year. The estimated previous year's Council Tax deficit or surplus is payable to / from the Collection Fund by the Billing Authority and Precepting Authorities in proportion to amounts raised or owing:

2017/18		2018/19
£000		£000
(707)	Middlesbrough Council	(611)
(101)	Cleveland Police and Crime Commissioner	(88)
(35)	Cleveland Fire Authority	(29)
<b>(843)</b>	<b>Total Deficit / (Surplus)</b>	<b>(728)</b>

### Note 4 Council Tax and Business Rates Provisions

Following a review carried out in 2017-18, no provision is made for debt less than 12 months, a provision of 50% is made for debt between 1 and 3 years old and 75% for debt between 4 and 5 years old. A provision of 100% is made for all debt over five years old, and a provision of 90% is made for Council Tax Support debt less than 3 years old

The Collection Fund account also provides for provision for appeals against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31 March 2019. This is the fourth year of this provision.

	£000
Opening Balance as at 1 <sup>st</sup> April 2018	4,164
Changes against the provision for appeals	(660)
Changes in the provision for appeals	1,777
<b>Closing balance as at 31<sup>st</sup> March 2019</b>	<b>5,281</b>

# 6. Teesside Pension Fund Accounts and Notes



*MIMA and the Bottle of Notes*

## Notes to the Pension Fund Accounts

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# Teesside Pension Fund Statement of Accounts

## Introduction

The Teesside Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS). The Fund is administered by Middlesbrough Council and the Council is the reporting entity for the Fund.

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016.

The Council has delegated decision making in relation to the Fund to the Pension Fund Committee. The day to day administration of the Fund and the operation of the management arrangements and investment portfolio is the responsibility of the Strategic Director, Finance, Governance and Support (Section 151 Officer) of the Council.

The Pension Fund Committee consists of representatives of the employers of the Fund (specifically Councillors of the Local Authority employers (voting), and Trade Union Representatives (non-voting) and are not controlled by Middlesbrough Council. The Pension Fund Committee sets investment strategy and recommends investment decisions. An independent Pensions Board exists and operates as a scrutiny panel to ensure the Pension Fund Committee acts within the statutory and regulatory framework.

## Operation

The Fund is operated as a funded, defined benefit occupational pension scheme which provides for the payment of benefits to employees and former employees of the Teesside local authorities and of those bodies admitted to the Fund; referred to as members. The benefits paid to members include retirement pensions, widows pensions, death grants and lump sums.

The Fund is financed by contributions from members, employers and the income from the Fund's investment portfolio of some £4 billion. The funding policy aims to ensure that the assets held by the scheme are adequate to meet the future liabilities (members' pensions) of the Fund allowing for future changes to pensions and pay.

## Financial Statements

The Fund's accounts provide information on the financial position, membership, investment performance and risks associated with the Fund. They show the results of the Trustees stewardship in managing the resources entrusted to it and provide information on the income and expenditure of the Fund and the investments it controls.

While membership rose in 2019, the Fund continued to pay more in benefits than it received in contributions as more members are drawing pensions. Management costs of the Fund rose during the year resulting in a net withdrawal of funds of £55.3 million (2018 £46.4 million). During the year the overall value of the Fund rose by £186 million to £4.08 billion.

## Membership

Membership of the LGPS is voluntary and employees, including non-teaching staff, are free to choose whether to join the scheme, remain in the scheme or make their own arrangements. Teaching staff have access to their own defined benefit scheme the details of which are provided in the Councils financial statements.

The tables overleaf summarises the membership of the scheme over recent years showing an overall fall in active members, and an increasing number of members who have deferred rights or are drawing pensions.

<b>Membership of the Fund</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Active	22,566	22,637	23,791	23,295	<b>22,932</b>
Deferred	24,429	22,453	22,861	23,243	<b>25,610</b>
Pensioner	21,059	21,699	22,177	22,757	<b>23,724</b>
<b>Total</b>	<b>68,054</b>	<b>66,789</b>	<b>68,829</b>	<b>69,295</b>	<b>72,266</b>

<b>Summary of Changes in Membership</b>	<b>Active Members</b>	<b>Deferred Members</b>	<b>Pensioner Members</b>	<b>Dependants</b>	<b>Total</b>
At 1 April 2018	23,295	23,243	19,805	2,952	<b>69,295</b>
Adjustments	(670)	1,977	120	12	<b>1,439</b>
New Members	3,153	1,650	1,430	243	<b>6,476</b>
Change in Status	(2,257)	(961)	(26)	(9)	<b>(3,253)</b>
Leavers	(589)	(299)	(629)	(174)	<b>(1,691)</b>
At 31 March 2019	<b>22,932</b>	<b>25,610</b>	<b>20,700</b>	<b>3,024</b>	<b>72,266</b>
% of Total Membership	<b>31.7%</b>	<b>35.4%</b>	<b>28.6%</b>	<b>4.2%</b>	<b>100.0%</b>

During the year, 2 employers joined the scheme as scheduled bodies, and 2 employers joined as admitted bodies. Also, 16 employers ceased\* to have active members in the scheme. At the year end the Fund had 154 employers with active members. Details of the employers and their contribution rates are set out in the Actuary's Statement at the end of this Section.

Employers participating in the Teesside Pension Fund Accounts include:

- Scheduled bodies - local authorities or similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies - organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary and charitable organisations and private contractors that are undertaking a local authority function following an out sourcing to the private sector.

## Teesside Pension Fund Statement of Accounts

Fund Accounts for the year ended 31 March 2018

2017/18			2018/19
£000		Note	£000
	<b>Dealings with members, employers and others directly involved in the Fund</b>		
(89,770)	Contributions	6	(94,529)
(4,981)	Transfers in from other pension funds	8	(4,972)
(5,684)	Other income	9	(4,656)
(100,435)	<b>Total Income from Members</b>		(104,155)
131,543	Benefits payable	7	141,597
10,516	Payments to and on account of leavers	10	12,194
142,059	<b>Total Expenditure to Members</b>		153,792
41,624	<b>Net / withdrawals from dealings with members</b>		49,637
4,807	Management expenses	11 ,20	8,266
46,431	<b>Net withdrawals including fund management expenses</b>		57,903
	<b>Returns on investment</b>		
(107,394)	Investment income	12	(55,312)
24,100	Profits and losses on disposal of investments and changes in the market value of investments	13	(194,231)
(83,294)	<b>Net returns on investment</b>		(249,543)
(36,863)	<b>Net (increase) in the net assets available for benefits during the year</b>		(191,640)
3,859,589	<b>Net assets of the scheme as at 1 April</b>	14	3,896,452
3,896,452	<b>Net assets of the scheme as at 31 March</b>	14	4,088,095
2017/18	<b>Net Assets Statement as at 31 March</b>		2018/19
3,891,011	Investments Assets	13	4,083,229
10,241	Current Assets	16	10,013
(4,800)	Current liabilities	17	(5,147)
3,896,452	<b>Net assets of the Fund at 31 March</b>	14	4,088,095

## Notes to Teesside Pension Fund Accounts

### Note 1 Basis of Preparation

The statement of accounts summarises the Fund's transactions for the 2018/19 financial year and its position as at year end as at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, 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. The accounts do not take account of obligations to pay pensions and benefits, which fall due after the end of the financial year.

### Note 2 Accounting standards been issued but not yet been adopted

The following new standards and amendments to existing standards have been issued but not yet adopted by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

**IFRS 16 Leases** - will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2020.

**IAS 40 Investment Property** -Transfers of Investment Property provides further explanation of the instances in which a property can be reclassified as investment property. This will have no impact on the Council as it already complies

**IFRS 9 Financial instruments** - prepayment features with negative compensation amends IFRS9 to make clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest. The Council has no loans to whom this will apply.

### Note 3 Summary of Significant Accounting Policies

#### Accruals

The accounts have been prepared on an accruals basis, and the accruals threshold set by management is £100,000. The exception to this accruals basis is individual transfer values, which are recognised on a cash transfer basis.

#### Fund Account – Revenue Recognition

##### Contributions income

Normal contributions, from both the members and the employers, are accounted for on an accruals basis in the payroll period to which they relate. The employers' percentage rate is set by the Actuary, whilst the employees' rate is determined by the Local Government Pension Scheme (LGPS) Regulations. Employer deficit funding contributions are accounted for on the due dates set by the actuary, or on receipt if earlier.

Employer strain on the fund and any augmentation contributions are accounted for in the period in which the liability arises. Amounts due in the year but still outstanding at the year-end are accrued, according to the accruals threshold.

##### Transfer Values

Transfer values represent the sums receivable in respect of members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Individual transfer values in and 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.

## **Investment Income**

Investment income has been recognised as due on the ex-dividend date and is credited to the Fund on the date of the dividend, if received. The investment income is not grossed up for tax, as it is reported as net cash received.

### Interest Income

Interest income is recognised in the Fund account when it is received and is accrued at the year end, 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 cash collection basis.

### Movement in the Net Market Value of Investments

Changes in the net market value of investments (including investment properties) are recognised as income or expense and comprise all realised and unrealised profits/losses during the year.

## **Fund Account – Expense Items**

### **Benefits Payable**

Pensions and lump sum benefits payable include all amounts known to be due at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

### **Taxation**

The Fund is a registered public service 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 withholding tax recovered is credited on receipt. We account for dividends and recoverable tax on a cash basis but do not account for non-recoverable tax

### **Management Expenses**

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses in accordance with CIPFA's 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 direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. Expenses for actuarial, audit and legal fees are paid directly by the Fund.

### Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management,

accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

#### Investment Management Expenses

All investment management expenses are accounted for on an accruals basis. Fees of external investment managers and the Fund's custodians are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. The costs of the Council's in house fund management team are charged direct to the Fund and a proportion of the Council's costs representing management time spent by officers on investment management is also charged to the Fund.

### **Property Expenses**

Property expenses have been recorded gross and shown as a deduction from the gross rental income received in determining net rents from properties.

### **Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term, 'financial instrument' covers both financial assets and financial liabilities and includes financial assets and liabilities such as trade receivables and trade payables.

#### IFRS 13 Fair Value Measurement

The standard provides a consistent definition of fair value and enhanced disclosure requirements. It is designed to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions). The Fund currently complies with this standard.

#### Foreign Currency Transactions

Foreign income and sales and purchase of investments in foreign currencies received during the year have 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 on 31st March 2019.

### **Net Assets Statement**

#### **Financial Assets**

Financial assets are included in the net assets statement on a fair value basis as at 31st March 2019. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of an asset. From this date, any gains and losses arising from changes in the fair value of assets are recognised in the Fund account. The value of investments as shown in the net assets statement have been determined as follows;

#### Market Quoted Investments

Investments are valued at fair value as at 31st March 2019, as provided by the Fund's custodian. Quoted UK securities are valued at the bid price based on quotations in the Stock Exchange Daily Official List. Overseas quoted securities are, similarly, valued at the bid price from overseas stock exchanges, translated at closing rates of exchange.

#### Pooled Investment Vehicles

Pooled investment vehicles are valued at closing bid prices if both bid and offer prices are published, otherwise at the closing single price. In the case of pooled investment vehicles that are accumulation funds, the change in market value also includes income which is reinvested in the Fund, net of applicable withholding tax.

#### Fixed Interest Securities

The value of fixed income investments excludes interest earned but not paid over at the year end. The interest earned is accrued within the investment income receivable.

### Unquoted Investments

Unlisted securities, including partnerships, are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers or those controlling the partnerships.

### Freehold and Leasehold Properties

Properties are shown as valued at 31st March 2019. Properties are valued annually by an independent external valuer on a fair value basis, and in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th Edition).

### Custody and Security of Investments

Most investments are held in nominee name by the Fund's Global Custodian, BNP Paribas Securities Services. Exceptions to this are directly owned properties, money market cash deposits and specified unquoted investments, which would be registered in the name of the administering authority. Where the Custodian does not provide a custody service in their own right, they utilise third party Sub Custodians, who are appointed by the Custodian. The agreement between the Fund and the Custodian provides for certain indemnities where there has been loss as a result of action or inaction by the Custodian or its Sub Custodians. This is supported by limited insurance cover procured by the Custodian.

### **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 relative manager. These are shown in Note 14.

### **Cash and Cash Equivalents**

Cash comprises of cash in hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

### **Disposal of Investments**

Profits and losses on the disposal of investments are realised when the transactions are legally complete.

### **Interest on Cash Balances**

All surplus cash balances of the Fund are invested externally, interest being credited to the Fund.

### **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 IAS19 and relevant actuarial standards. As permitted under the Code, the Fund has adopted to disclose the actuarial present value of promised retirement benefits by way of a note, refer to Note 15.

### **Additional Voluntary Contributions**

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed the Prudential Assurance Co Ltd as the current provider. AVCs are paid to the AVC provider by the 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 in the year. AVCs are not included in the accounts in accordance with Regulation 4 (1) b of the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016, but are disclosed as a note only (Note 18).

## Contingent Liabilities

### The McCloud Judgement

In December 2018 the Court of Appeal ruled against the Government in the McCloud/Sargeant Judgement, which found that the transitional protection arrangements put in place when the firefighter' and judges' pension schemes were reformed were age discriminatory. The ruling potentially has the implication for all public sector schemes which were reformed around the same time and could lead to member who were discriminated against being compensated.

The Government Actuary's Department (GAD) under instruction of the LGPS Scheme Advisory Board has calculated a potential IAS 19 accounting liability of (Expected to be 0.5% to 1.0%) of defined benefit obligation should the government be unsuccessful in its application to appeal or if the Court of Appeal's judgement is upheld by the Supreme Court and the agreed remedy for the LGPS is to extend the 'underpin' protections to all members. This estimate is at Scheme level encompassing a range of different assumptions typically used by employers to report pension costs. The eventual impact of Teesside Pension Fund accounts will depend on the remedy chosen by the government to compensate members(which may not be the scenario modelled by GAD), the membership profile (age/sex/salary) of Teesside Pension Fund's membership and the assumptions used to report pension costs at time of recognition.

## Value Added Tax

Expenses and property purchase costs are charged net to the Pension Fund.

## Note 4 Critical Judgements, Sensitivities and Accounting Estimates

### Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the International Private and Venture Capital Association guidelines or European Venture Capital Association definition of conservative value. The value of unquoted private equities at 31 March 2019 was £9,920,795.08 (Nil at 31st March 2018).

### Pension Fund Liabilities

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 15. This estimate is subject to significant variances based on changes to the underlying assumptions.



## Note 5 Assumptions made about the Future and other Major Sources of Estimation Uncertainty

The Statement of the 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 factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied	The effects on the net pension liability of changes in individual assumptions can be measured for example, a 0.1% per annum increase in the discount factor assumption could decrease liability by around £94.07 million
Pooled Investment Vehicles	Infrastructure and global property investments are valued at fair value in accordance with the International Private and Venture Capital Association guidelines or European Venture Capital Association definition of conservative value. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Unobservable market values amount to £3,047 billion and are relating to infrastructure, real estate, and pooled equity vehicles
Freehold and leasehold property	Independent external valuers, Cushman & Wakefield use techniques to determine the fair value of directly held freehold and leasehold property in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th edition).	The effect of variations in the factors supporting the valuation would be an increase or decrease (9.44%) in the value of directly held property £28.3 million, on a fair basis of £300.7 million.

## Note 6 Contributions

Contributions from both members and employers are accounted for on an accrual basis in the payroll period. The employers' percentage rate is set by the actuary, whilst the employees' rate is determined by the Local Government Pension Scheme (LGPS) Regulations.

		2017/18	2018/19
		£000	£000
Employers	Normal	(62,829)	(66,290)
	Additional Contributions	(41)	(23)
	Deficit Recovery Contributions	(720)	(1,025)
Members	Normal	(26,180)	(27,191)
<b>Total</b>		<b>(89,770)</b>	<b>(94,529)</b>

## Analysis of Total Contributions

	2017/18	2018/19
	£000	£000
Administering Authority – Middlesbrough Council	(14,005)	(14,583)
Scheduled Bodies	(60,226)	(64,709)
Admitted Bodies	(15,539)	(15,237)
<b>Total</b>	<b>(89,770)</b>	<b>(94,529)</b>

## Note 7 Benefits Payable

Pensions and lump sum benefits payable include all amounts known to be due at the end of the financial year.

	2017/18	2018/19
	£000	£000
Pensions	105,369	113,219
Commutations and lump sum retirement benefits	23,403	25,463
Lump sum death benefits	2,771	2,915
<b>Total</b>	<b>131,543</b>	<b>141,597</b>

## Analysis of Total Benefits

	2017/18	2018/19
	£000	£000
Administering Authority – Middlesbrough Council	21,329	23,482
Scheduled Bodies	81,267	86,096
Admitted Bodies	28,947	32,019
<b>Total</b>	<b>131,543</b>	<b>141,597</b>

## Note 8 Transfers in from Other Pension Funds

Transfer values represent the sums receivable in respect of members who have either joined or left the Fund during the financial year.

	2017/18	2018/19
	£000	£000
Individual transfers in from other schemes	(4,981)	(4,972)
<b>Total</b>	<b>(4,981)</b>	<b>(4,972)</b>

## Note 9 Other Income

Other income the Fund has received in year.

	2017/18	2018/19
	£000	£000
Capital Costs of Early Retirements	(4,499)	(4,075)
Other income	(1,185)	(581)
<b>Total</b>	<b>(5,684)</b>	<b>(4,656)</b>

## Note 10 Payments to and on account of leavers

	2017/18	2018/19
	£000	£000
Refunds to members leaving service	222	284
Payments for members joining state scheme	90	200
Individual transfers to other schemes	10,204	11,710
<b>Total</b>	<b>10,516</b>	<b>12,194</b>

## Note 11 Management Expenses

The Fund discloses its pension fund management expenses in accordance with CIPFA's guidance 'Accounting for Local Government Pension Scheme Management Expenses (2016)'. This includes administrative expenses, investment management expenses and oversight and governance costs.

	2017/18	2018/19
	£000	£000
Administrative costs	1,672	1,692
Investment management expenses	2,451	5,314
Oversight and governance costs	684	1,236
<b>Total</b>	<b>4,807</b>	<b>8,242</b>

All investment management expenses are accounted for on an accruals basis. Fees of external managers and custodian are agreed in respective mandates governing their appointments.

	2017/18	2018/19
	£000	£000
Management fees	933	2,563
Custody fees	11	21
Transaction costs	815	1,959
Loans & investment support service charges	692	771
<b>Total</b>	<b>2,451</b>	<b>5,314</b>

## Note 12 Investment Income

Investment income has been recognised as due on the ex-dividend date and is credited to the fund on the date of dividend.

	2017/18	2018/19
	£000	£000
Income from bonds	(93)	0
Income from equities	(87,723)	(31,643)
Income from pooled investment vehicles	(3,820)	(3,595)
Other Investment Income	(154)	(77)
Net rents from properties (see note below)	(14,042)	(15,414)
Interest on cash deposits	(1,562)	(4,583)
<b>Total</b>	<b>(107,394)</b>	<b>(55,312)</b>

## Rental Income and Property Expenses

	2017/18	2018/19
	£000	£000
Gross Rental income	(14,230)	(15,270)
Property Expenses	188	(144)
<b>Net Rents from Properties</b>	<b>(14,042)</b>	<b>(15,414)</b>

## Note 13 Investment Assets

The Pension Fund invest in several different types of financial instruments in order to maximize the return on the investment for the Fund.

2018/19	Value at 1 April 2018	Purchases at Cost	Sale Proceeds	Change in Market Value	Value at 31 March 2019
	£000	£000	£000	£000	£000
Equities	2,232,575	18,925	(2,405,369)	185,364	31,495
Pooled Investment Vehicles	839,927	3,561,141	(1,205,275)	7,859	3,158,652
Pooled Property Investments	44,999	4,407	(413)	1,128	50,121
Properties	262,690	40,532	(2,403)	(119)	300,700
	<b>3,380,191</b>	<b>3,625,005</b>	<b>(3,658,460)</b>	<b>194,231</b>	<b>3,540,968</b>
Cash Deposits	485,924				527,454
Other Investment Balances	24,896				14,807
<b>Net Investment assets</b>	<b>3,891,011</b>				<b>4,083,229</b>

2017/18	Value at 1 April 2017	Purchases at Cost	Sale Proceeds	Change in Market Value	Value at 31 March 2018
	£000	£000	£000	£000	£000
Bonds	7,084	0	(6,903)	(181)	0
Equities	2,848,407	134,710	(718,318)	(32,224)	2,232,575
Pooled Investment Vehicles	296,697	913,444	(370,730)	516	839,927
Pooled Property Investments	42,667	0	(413)	2,745	44,999
Properties	204,325	53,321	0	5,044	262,690
	<b>3,399,180</b>	<b>1,101,475</b>	<b>(1,096,364)</b>	<b>(24,100)</b>	<b>3,380,191</b>
Cash Deposits	428,302				485,924
Other Investment Balances	26,405				24,896
<b>Net Investment assets</b>	<b>3,853,887</b>				<b>3,891,011</b>

### Change in Market Value

The change in the 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. Realised profit was £1,131,177,145 and unrealised loss was £936,945,685. Prior year realised profit was £249,107,611 and unrealised loss was £273,207,207.

### Transaction Costs

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction

costs incurred during the year amounted to £1,959,054 (2017/2018 £815,029). In addition to the transaction costs disclosed here, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund. For accounting purposes the transaction costs have been re-allocated to expenses.

### Investments Analysed by Fund Manager

The Fund is mainly in-house managed with the only exception being the direct property portfolio managed by CBRE Limited.

- For 2018/19 the value at 31 March 2019 of the direct property portfolio was : £300,700,000
- For 2016/17 the value at 31 March 2018 of the direct property portfolio was : £262,690,000

The remainder of the Fund is all managed in-house.

The following investments represent more than 5% of the net assets of the scheme. They are both registered UK unit trusts.

Security	Market Value 31 March 2018 £'000	% of net assets of the scheme	Market Value 31 March 2019	% of net assets of the scheme £'000
Border to Coast OS DEV M-AA GBP	0	0.00%	206,925	5.07%
Border to Coast UK L E-AA GBP	0	0.00%	1,225,311	30.00%
SSGA MPF Pacific Basin ex-Japan Index	344,369	10.19%	366,254	8.97%
SSGA MPF Japan Equity Index	235,563	6.97%	233,612	5.72%
SSGA MPF North America Equity Index Sub Fund	0	0.00%	640,191	15.68%
SSGA MPF Euro Ex UK Equity Index Sub Fund	0	0.00%	373,959	9.16%

In addition, the following investments represent more than 5% of any class or type of security. The asset classes used for this note are not the CIPFA classifications, but those represented in the Fund's valuation by its Custodian and reported to the Teesside Pension Fund and Investment Panel.

Asset Class / Security	Market Value 31 March 2018 £'000	% of asset class	Market Value 31 March 2019 £'000	% of asset class
<b>Global Equities</b>				
Border to Coast OS DEV M-AA GBP	0	0.00%	206,925	100.00%
<b>UK Equities</b>				
Border to Coast UK L E-AA GBP	0	0.00%	1,225,311	99.45%
<b>Overseas Equities</b>				
SSGA MPF Pacific Basin ex-Japan Index	344,369	18.85%	366,254	22.25%
SSGA MPF Japan Equity Index	235,563	12.89%	233,612	14.19%
SSGA MPF North America Equity Index Sub Fund	0	0.00%	640,191	38.89%
SSGA MPF Euro Ex UK Equity Index Sub Fund	0	0.00%	373,959	22.71%
<b>Property</b>				
Direct - Doncaster (Omega Boulevard)	22,800	7.41%	23,850	6.80%
Direct - Exeter (The Meridian Centre)	0	0.00%	22,100	6.30%
Direct - Birmingham (Bromford Central)	15,500	5.04%	17,100	4.87%

Direct - Gateshead (Team Valley Trading Estate)	16,250	5.28%	16,850	4.80%
Direct - Rotherham (Catcliffe Retail Park)	16,350	5.31%	15,750	4.49%
Direct - Rugby (Valley Park))	15,200	4.94%	15,500	4.42%
<b>Pooled Property Investments</b>				
Standard Life Investments European Property Growth Fund	16,659	5.41%	21,243	6.06%
<b>Alternatives</b>				
Darwin Leisure Prop Units FDS Cls 'C'	19,342	27.46%	20,577	19.64%
Gresham House British Strategic Inv FD LP	0	0.00%	19,623	18.73%
Darwin Leisure Develop-DGBPA	0	0.00%	15,162	14.47%
ACIF Infrastructure	0	0.00%	10,483	10.01%
Crown Co Investment Opp II PLC	0	0.00%	9,921	9.47%
Innisfree PFI Continuation Fund	9,707	13.78%	9,644	9.21%
Amedeo Air Four Plus Ltd	10,600	15.05%	9,000	8.59%
Innisfree PFI Secondary Fund 2	7,052	10.01%	7,710	7.36%

### Geographical Analysis of Investments

	As at 31/03/18		As at 31/03/19	
	£000	%	£000	%
United Kingdom	1,934,040	57%	1,645,949	46%
United States	563,608	17%	732,996	21%
Asia Pacific Ex Japan	0	0%	459,809	13%
Europe Ex UK	0	0%	447,090	13%
Japan	235,563	7%	254,305	7%
Republic of Korea	135,595	4%	0	0%
Germany	90,097	3%	0	0%
France	88,750	3%	0	0%
Switzerland	71,466	2%	0	0%
Taiwan	71,170	2%	0	0%
Hong Kong	10,319	0%	0	0%
Australia	8	0%	0	0%
Singapore	0	0%	0	0%
Others	179,575	5%	819	0%
<b>Total</b>	<b>3,380,191</b>	<b>100.00%</b>	<b>3,540,968</b>	<b>100.00%</b>

### Equities

	As at 31/03/18	As at 31/03/19
	£000	£000
UK quoted	1,072,771	17
Overseas quoted	1,159,804	31,478
<b>Total</b>	<b>2,232,575</b>	<b>31,495</b>

## Pooled Investment Vehicles and Properties

	As at 31/03/18	As at 31/03/19
	£000	£000
UK Equity	102,409	1,232,124
Commodities	9,767	0
Pooled Property investment Vehicle	44,999	50,121
Infrastructure	22,786	94,828
Other Alternative Investments	30,178	0
<b>UK Unit and Investment Trusts Total</b>	<b>210,139</b>	<b>1,377,073</b>
Commodities	7,698	0
Overseas Equities	667,089	1,831,700
<b>Overseas Unit and Investment Trusts Total</b>	<b>674,787</b>	<b>1,831,700</b>
<b>Total</b>	<b>884,926</b>	<b>3,208,773</b>

## UK Properties

	As at 31/03/18	As at 31/03/19
	£000	£000
Freehold	217,365	232,625
Leasehold	45,325	68,075
<b>Total</b>	<b>262,690</b>	<b>300,700</b>

The properties were valued on the basis of Market Value as at 31 March 2019 by Cushman and Wakefield LLP acting as an External Valuer, in accordance with the RICS Valuation - Professional Standards. The valuer's opinion of the Market Value of the Fund's interests in the properties was primarily derived from analysis of recent market transactions concluded at arm's-length.

## Cash Deposits

	As at 31/03/18	As at 31/03/19
	£000	£000
Sterling Cash deposits	485,924	527,454

## Other Investment Balances

	As at 31/03/18	As at 31/03/19
	£000	£000
Cash deposits with custodian	15,894	13,147
Outstanding dividend entitlements	8,595	42
Interest due on cash deposits	407	1,618
<b>Total</b>	<b>24,896</b>	<b>14,807</b>

## Outstanding Commitments

As at 31 March 2019, the Fund had outstanding commitments to four investments:

	Vintage Year	Initial commitment	Capital payments made	Outstanding commitment as at 31 March 2019
		£	£	£
Innisfree PFI Continuation Fund	2006	10,000,000	9,708,498	291,502
Innisfree PFI Secondary Fund 2	2012	10,000,000	9,622,011	377,989
Hearthstone Residential Fund LP	2016	10,000,000	2,959,250	7,040,750
Gresham House British Strategic Investment Fund LP	2017	40,000,000	19,506,024	20,493,976
<b>Total</b>		<b>70,000,000</b>	<b>41,795,783</b>	<b>28,204,217</b>
		EUR	EUR	EUR
ACIF Infrastructure	2017	23,000,000	10,346,956	12,653,044
<b>Total</b>		<b>23,000,000</b>	<b>10,346,956</b>	<b>12,653,044</b>
		USD	USD	USD
Crown-Co Investments Opportunities II	2017	30,000,000	132,000	29,868,000
<b>Total</b>		<b>30,000,000</b>	<b>132,000</b>	<b>29,868,000</b>

## Note 14 Financial Instruments

### Net Gains and Losses on Financial Instruments

Financial Assets	2017/18	2018/19
	£000	£000
Fair Value through profit and loss account	(24,100)	(194,231)

### Fair Value of Financial Instruments

Fair Value through profit and loss	Fair Value	Carrying Value	Fair Value	Carrying Value
	As at 31/03/18		As at 31/03/19	
	£000	£000	£000	£000
Fixed Interest Securities	0	0		
Equities	2,232,575	2,232,575	31,495	31,495
Index-linked securities	0	0		
Pooled Investments	839,927	839,927	3,158,652	3,158,652
Properties	307,689	307,689	350,821	350,821
	<b>3,380,191</b>	<b>3,380,191</b>	<b>3,540,968</b>	<b>3,540,968</b>
Loans and receivables	528,951	521,061	520,707	552,274
	<b>3,909,142</b>	<b>3,901,252</b>	<b>4,061,675</b>	<b>4,093,242</b>
<b>Financial Liabilities – Fair Value at Amortised Costs</b>				
Creditors	(4,800)	(4,800)	(5,147)	(5,147)
<b>Net Financial Assets of the Fund</b>	<b>3,904,342</b>	<b>3,896,452</b>	<b>4,056,528</b>	<b>4,088,095</b>

### Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.



### Level 1

Financial instruments at Level 1 are those where fair values are derived from unadjusted **quoted prices in active markets** for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

### Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these 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 instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Teesside Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken as at 31st March annually. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

Teesside Pension Fund has no investments in hedge funds.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

### Valuation of Financial Instruments carried at fair value

	Level 1	Level 2	Level 3	Total
Value as at 31 March 2019	£000	£000	£000	£000
Financial assets at fair value through profit and loss account	1,463,803	78,787	1,697,678	3,240,268
Non-financial assets through profit and loss account			300,370	300,700
Loans and receivables	520,707			520,707
Financial Liabilities at amortised cost	(5,147)			(5,147)
<b>Total Financial Assets</b>	<b>1,979,363</b>	<b>78,787</b>	<b>1,998,378</b>	<b>4,056,528</b>

### Valuation of Financial Instruments carried at fair value

	Level 1	Level 2	Level 3	Total
Value as at 31 March 2018	£000	£000	£000	£000
Financial assets at fair value through profit and loss account	2,337,547	148,378	631,576	3,117,501
Non-financial assets through profit and loss account	0	0	262,690	262,690
Loans and receivables	518,710	0	0	518,710
Financial Liabilities at amortised cost	(4,800)	0	0	(4,800)
<b>Total Financial Assets</b>	<b>2,861,698</b>	<b>148,378</b>	<b>894,266</b>	<b>3,904,342</b>

### Sensitivity of Assets at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation classification described above are likely to be accurate to within, the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

### Valuation of Financial Instruments carried at fair value – 31 March 2019

	Assessed valuation range (+/-)	Value at 31 March 2019	Value on increase	Value on decrease
		£000	£000	£000
Pooled Investments - UK Equity	9.47%	6,740	7,378	6,102
Pooled Investments - Overseas Equity	9.91%	1,614,037	1,773,988	1,454,086
Property Pooled Investments	9.44%	26,927	29,469	24,385
Direct Property	9.44%	300,700	329,086	272,314
Pooled Infrastructure	7.30%	49,974	53,622	46,326
<b>Total</b>		<b>1,998,378</b>	<b>2,193,544</b>	<b>1,803,213</b>

### Valuation of Financial Instruments carried at fair value – 31 March 2018

	Assessed valuation range (+/-)	Value at 31 March 2018	Value on increase	Value on decrease
		£000	£000	£000
Pooled Investments - UK Equity	7.82%	6,713	7,238	6,188
Pooled Investments - Overseas Equity	10.71%	579,931	642,042	517,820
Property Pooled Investments	5.66%	22,146	23,400	20,893
Direct Property	5.66%	262,690	277,558	247,822
Pooled Infrastructure	5.94%	22,786	24,140	21,433
<b>Total</b>		<b>894,266</b>	<b>974,378</b>	<b>814,156</b>

### Reconciliation of Fair Value Measurements within level 3 during 2018/19

Period 2018/19	Market Value 1 April 2018	Transfer between levels	Purchases	Sales	Unrealised Gains/ Losses	Realised Gains/ Losses	Market Value 31 March 2019
	£000	£000	£000	£000	£000	£000	£000
Pooled Investment Vehicles - Unit & Investment Trusts UK	6,714	0	0	0	26	0	6,740
Pooled Investment Vehicles - Unit & Investment Trusts UK (Infrastructure)	22,785	0	55,090	(14,391)	(13,510)	0	49,974
Pooled Investment Vehicles - Unit & Investment Trusts UK (Overseas)	579,931	0	2,071,221	(1,038,579)	1,464	0	1,614,037
Pooled Property Investment - Unit & Investment Trusts UK	22,146	0	4,407	(413)	787	0	26,927
Property	595,690	0	40,532	(2,281)	(241)	0	300,700
<b>Total</b>	<b>894,266</b>	<b>0</b>	<b>2,171,250</b>	<b>(1,055,664)</b>	<b>(11,474)</b>	<b>0</b>	<b>1,998,378</b>

## Reconciliation of Fair Value Measurements within level 3 during 2017/18

Period 2017/18	Market Value 1 April 2017	Transfer between levels	Purchases	Sales	Unrealised Gains/ Losses	Realised Gains/ Losses	Market Value 31 March 2018
	£000	£000	£000	£000	£000	£000	£000
Pooled Investment Vehicles - Unit & Investment Trusts UK	6,338	0	0	0	376	0	6,714
Pooled Investment Vehicles - Unit & Investment Trusts UK (Infrastructure)	16,587	0	6,700	0	(502)	0	22,785
Pooled Investment Vehicles - Unit & Investment Trusts UK (Overseas)	26,122	0	559,235	0	(5,426)	0	579,931
Pooled Property Investment - Unit & Investment Trusts UK	20,796	0	0	(400)	1,750	0	22,146
Property	204,325	0	53,321	0	5,044	0	262,690
<b>Total</b>	<b>274,168</b>	<b>0</b>	<b>619,256</b>	<b>(400)</b>	<b>1,242</b>	<b>0</b>	<b>894,266</b>

## Nature and Extent of Exposure to Risk Arising from Financial Instruments

### Risk and Risk Management

The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. Responsibility for the Fund's risk management strategy rests with the Teesside Pension Fund Committee. The Funding Strategy Statement and the Statement of Investment Principles identify and analyse the risks faced by the pensions operations. These policies are reviewed regularly to reflect changes in activity and market conditions.

### Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The Fund identifies, manages and controls market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical 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.

The Fund manages these risks in three ways:

1. The actuarial valuation of the Fund which is carried out every three years and resets the employer contribution rates.
2. The asset liability study which is carried out every three years or more frequently if required considers alternative asset allocations for the Fund and the long term impact on employer contribution rates.
3. Quarterly monitoring of the performance of the Fund against selected benchmarks, and annual performance reports to the Investment Panel.

## Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in the market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund Strategy Statement and the Investment Strategy Statement.

## Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with Portfolio Evaluation Ltd, the Fund has determined that the following movements in market price risk are reasonably possible for the 2018/2019 reporting period.

2018/19 Price Risk		Value as at 31/03/19	Change	Value on Increase	Value on Decrease
Asset Type	Region	£000	%	£000	£000
Equities	UK	17	9.47%	19	15
	Non UK	31,478	9.91%	34,597	28,359
	Total	31,495		34,616	28,374
Managed and Unitised Funds	UK	1,377,073	9.47%	1,507,482	1,246,664
	Non UK	1,831,700	9.91%	2,013,221	1,650,179
	Total	3,208,773		3,520,703	2,896,843
Property	UK	300,700	9.44%	329,086	272,314
<b>Total</b>		<b>3,540,968</b>		<b>3,884,405</b>	<b>3,197,531</b>

2017/18 Price Risk		Value as at 31/03/18	Change	Value on Increase	Value on Decrease
Asset Type	Region	£000	%	£000	£000
Equities	UK	1,072,771	7.82%	1,156,662	988,880
	Non UK	1,159,804	10.71%	1,284,019	1,035,589
	Total	2,232,575		2,440,681	2,024,469
Managed and Unitised Funds	UK	598,579	7.82%	645,388	551,770
	Non UK	286,347	10.71%	317,015	255,679
	Total	884,926		962,403	807,449
Property	UK	262,690	5.66%	277,558	247,822
<b>Total</b>		<b>3,380,191</b>		<b>3,680,642</b>	<b>3,079,740</b>

## Interest Rate Risk

Interest rate risk is the risk to which the Fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. The Fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2019 is set out below:

<b>Asset Type at 31 March</b>	<b>2017/18</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>
Cash and cash equivalents	485,924	527,454
Cash balances	24,896	14,807
<b>Total</b>	<b>510,820</b>	<b>542,261</b>

## Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 25 basis points (BPS) change in interest rates.

<b>Asset Type</b>		<b>+ 25 BPS</b>	<b>- 25 BPS</b>
<b>Carrying value at 31 March 2019</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cash and cash equivalents	527,454	1,319	(1,319)
Cash balances	14,807	37	(37)
<b>Total</b>	<b>542,261</b>	<b>1,356</b>	<b>(1,356)</b>

<b>Asset Type</b>		<b>+ 25 BPS</b>	<b>- 25 BPS</b>
<b>Carrying value at 31 March 2018</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cash and cash equivalents	485,924	1,215	(1,215)
Cash balances	24,896	62	(62)
<b>Total</b>	<b>510,820</b>	<b>1,277</b>	<b>(1,277)</b>

## Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund's currency rate risk is considered by the Fund's Investment Advisors and Investment Managers. The Investment Panel are informed quarterly of the Fund's currency exposure. The following tables summarise the Fund's currency exposure as at 31 March 2018 and as at 31 March 2019, showing the sensitivity analysis of foreign exchange movements.

<b>Currency Risk 31 March 2019</b>	<b>Value £000</b>	<b>Change %</b>	<b>Value on Increase £000</b>	<b>Value on Decrease £000</b>
Australian Dollar	8	12.53%	9	7
Euro	51,868	9.51%	56,801	46,935
Japanese Yen	254,305	11.73%	284,135	224,475
Taiwan Dollar	31,469	12.53%	35,412	27,526
US Dollar	732,996	10.62%	810,840	655,152
Asia Pacific ex Japan basket	428,232	11.73%	478,575	378,089
Emerging Basket	819	8.10%	885	753
Europe ex UK Basket	395,222	9.51%	432,808	357,636
<b>Total</b>	<b>1,895,019</b>		<b>2,099,465</b>	<b>1,690,573</b>

Currency Risk 31 March 2018	Value £000	Change %	Value on Increase £000	Value on Decrease £000
Australian Dollar	8	12.14%	9	7
Danish Krone	20,466	9.07%	22,322	18,610
Euro	249,832	9.08%	272,517	227,147
Hong Kong Dollar	10,319	10.01%	11,352	9,286
Indian Rupee	4,199	10.49%	4,639	3,759
Japanese Yen	235,563	8.71%	256,081	215,045
South Korean Won	135,595	12.01%	151,880	119,310
Norwegian Krone	9,475	14.13%	10,814	8,136
Swedish Krona	25,543	9.88%	28,067	23,019
Swiss Franc	71,466	10.51%	78,977	63,955
Taiwan Dollar	71,170	9.50%	77,931	64,409
US Dollar	589,191	9.70%	646,343	532,039
Asia Pacific ex Japan basket	344,850	11.05%	382,956	306,744
Emerging Basket	33,327	8.10%	36,026	30,628
Europe Basket	43,590	9.06%	47,539	39,641
Europe ex UK Basket	16,659	9.06%	18,168	15,150
<b>Total</b>	<b>1,861,253</b>		<b>2,045,621</b>	<b>1,676,885</b>

Following analysis of historical data in consultation with Portfolio Evaluation Ltd, the Fund considers the likely volatility associated with foreign exchange rate movements to be as shown above. A percentage strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as highlighted above.

### Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The Fund is exposed to credit risk on its investment portfolio, including its cash deposits, and on the contributions receivable from the Fund's participating employers. The market values on investments usually reflect an assessment of credit risk in their pricing and as a result the risk of the loss is implicitly provided for in the fair value of the Fund's investments. Credit risk on cash deposits is managed by Middlesbrough Council's in-house Treasury Management Team, following the Council's Treasury Management Policy. This policy is described in detail in Middlesbrough Council's Annual Report. Credit risk on contributions receivable from employers is minimised by regular monitoring of monthly receipt of payments from employees. There is no provision for doubtful debts against the amounts due from employers as at 31st March 2019. The LGPS Regulations require that a risk assessment of any new transferee admitted body is carried out, and that a bond or guarantee is obtained where necessary. The Teesside Pension Fund Committee must approve the admission of any new body. Bonds or guarantees have been obtained for the Fund's admitted employers, where possible. The Fund is potentially exposed to credit risk from certain scheduled employers that have neither tax-raising powers nor a guarantee from central government.

### Collateral and other Credit Enhancement

The pension fund does not use collateral and other credit enhancement.

### Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund holds in-house cash resources to meet the day to day needs and to pay pensions. If there is insufficient cash available to meet immediate needs, there are sufficient other assets available which can be realised at short notice and at minimal cost. With the exception of investments in private equity and infrastructure partnerships, there are no commitments to contribute further capital to any of the existing Fund investments. When private equity and infrastructure partnership capital calls are received, payments are made from cash or, if there are insufficient cash funds available, other assets are realised.

## Note 15 Actuarial Valuations

Contributions are paid to the Fund by the employers to provide for the benefits which will become payable to Scheme members when they fall due. The funding objectives are to meet the cost of Scheme members' benefits whilst they are working and to build up assets to provide adequate security for the benefits as they accrue.

In order to check that the funding objectives are being met the Fund is required to carry out an Actuarial Valuation every 3 years, The Triennial Valuation. An Actuarial Valuation was carried out as at 31st March 2016 using the 'Projected Unit Method', which produced the following results:

	31 March 2013	31 March 2016
	£ million	£ million
Net Liabilities	2,919	3,122
Assets	2,956	3,133
<b>Surplus</b>	<b>37</b>	<b>11</b>
<b>Funding Level</b>	<b>100%</b>	<b>100%</b>

### IAS19 Disclosure

An IAS19 valuation was carried out for the Fund as at 31st March 2019 by Aon Hewitt with the following results:

	2017/18	2018/19
	£ million	£ million
Present value of promised retirement benefits	4,865	5,039
Fair value of scheme assets	3,898	4,084
<b>(Deficit)</b>	<b>(967)</b>	<b>(955)</b>

These figures are presented for the purposes of IAS19 only. They are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pension's legislation.

The actuarial assumptions used to calculate the promised value of benefits at 31 March 2019 were:

### Funding Assumptions

RPI increases	3.3%
CPI increases	2.2%
Salary increases	3.2%
Pension increases	2.2%
Discount rate	2.4%

### The assumed life expectancy from age 65 (years) assumptions

	Years
Mortality Assumptions:	
Longevity at 65 for current pensioners:	
• Men	22.20
• Women	24.10
Longevity at 65 for future pensioners :	
• Men	23.90
• Women	25.90

## Note 16 Current Assets

Current assets are cash and any other asset that will be turning into cash within one financial year.

Debtors	31 March 2018	31 March 2019	
	£000	£000	
Other Debtors	1,828	1,360	
Sundry Debtors	581	501	
Contributions due in respect of	Employers	5,156	5,651
	Members	2,110	2,289
Capital cost of early retirements	473	5	
Cash balances	93	206	
<b>Total</b>	<b>10,241</b>	<b>10,013</b>	

Analysis of Debtors	31 March 2018	31 March 2019
	£000	£000
Other local authorities	4,445	4,364
Other entities and individuals	5,703	5,442
Add cash balances	93	206
<b>Total</b>	<b>10,241</b>	<b>10,013</b>

Scheduled Bodies have the option to pay the capital cost of Early Retirements over five years.

## Note 17 Current Liabilities

Current Liabilities are the amounts owing within the next financial year.

Amounts due within one year	31 March 2018	31 March 2019
	£000	£000
Rents received in advance	(2,344)	(3,203)
Accrued expenses	(851)	0
Other payables	(1,605)	(1,944)
<b>Total</b>	<b>(4,800)</b>	<b>(5,147)</b>

Analysed by	31 March 2018	31 March 2019
	£000	£000
Other local authorities	(349)	(454)
Other entities and individuals	(4,451)	(4,693)
<b>Total</b>	<b>(4,800)</b>	<b>(5,147)</b>

## Note 18 Additional Voluntary Contributions (AVC's)

Scheme members may make Additional Voluntary Contributions that are invested with the Fund's nominated AVC providers, the Prudential Assurance Co Ltd. These contributions are not part of the Pension Fund and are not reflected in the Fund's accounts in accordance with regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The value of AVC investments are as follows:



## Prudential AVC Balances

	31 March 2018	31 March 2019
	£000	£000
With Profits and Deposit Accounts	4,332	4,610
Unit Linked Accounts	3,001	3,083
<b>Total</b>	<b>7,333</b>	<b>7,693</b>

The total value of AVC contributions paid to Prudential during the year, was £1,512,925 (2017/18 was £1,448,964).

## Note 19 Related Party Transactions

The Fund is administered by Middlesbrough Council which is a related party as defined by International Accounting Standard 24 (IAS 24) 'Related Party Disclosures'. IAS 24 requires disclosure of information on related party transactions.

In its position as Administering Authority Middlesbrough Council has recharged scheme administration services to the Fund as follows:

	2017/18	2018/19
	£000	£000
Support Service Recharges payable for the year	1,191	1,202

The Strategic Director of Finance Governance and Support is a director of Horizons Special Academy Trust which made the following contributions to the Pension Fund in 2018/19:

Employee's contributions of £168,000

Employer's contributions of £466,000

The following Members of the Pensions Committee are all in receipt of a pension from the Teesside Pension Fund Cllr J Beall, Cllr B Brady and J Rostron.

## Note 20 External Audit Costs

The external fees payable to the Fund's external auditors Ernst & Young LLP.

	2017/18	2018/19
	£000	£000
Payable in respect of external audit	28	24
<b>Total</b>	<b>28</b>	<b>24</b>

## Note 21 Senior Employees' Remuneration

	2017/18	2018/19
	£000	£000
Key Management Personnel		
Short Term Benefits	62	68
Post-Employment Benefits	9	10
<b>Total</b>	<b>71</b>	<b>78</b>

## Note 22 Events after the Balance Sheet Date

There are no adjusting events after the end of the reporting period which will impact on the accounts.

### The Compliance Statement

#### The Compliance Statement Local Government Pension Scheme Regulations

Middlesbrough Council administers the Teesside Pension Fund in accordance with:

*The Local Government Pension Scheme Regulations 2013 (as amended)*

*The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and*

*The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016*

Full details of the Governance Policy and Compliance Statement can be seen at

[http://www.teespen.org.uk/documents/index.php?name=GOVERNANCE\\_2](http://www.teespen.org.uk/documents/index.php?name=GOVERNANCE_2)

[Full details of the changes to the scheme, along with updated scheme guides, are on our website at www.teespen.org.uk](http://www.teespen.org.uk)

#### Investment Strategy Statement

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require that Local Government Pension Scheme's administering authorities prepare, publish and maintain an Investment Strategy Statement (ISS). The current version of the Teesside Pension Fund ISS is approved in February 2019 and contains statements on:

- Investment responsibilities, setting out the key responsibilities of the Teesside Pension Fund Committee, key officers of the Fund, the Fund's Custodian and the Independent Investment Advisors.
- The investment strategy and the type of investments held, e.g. equities, bonds, property etc.
- The maximum and minimum amount allowable in each asset class and any discretion by the administering authority to increase the limits on various types of investment.
- Risk, including the ways in which risks are to be measured and managed.
- The existing investment management arrangements and the extent of the Fund's commitment to pooling the investment management function.
- The Fund's position as a responsible investor and its promotion of ethical, social and corporate governance best practice.
- The exercise of the rights (including voting rights) attaching to investments, and the Fund's statement of commitment to the Stewardship Code.
- The Fund's commitment to measure and report investment performance.
- The level of compliance with the Myners Principles.

The statement is maintained and published by Middlesbrough Council, copies of which are available on application, or it can be seen at the Fund's website:

<http://www.teespen.org.uk/documents/index.php?name=ISS>

## The Funding Strategy Statement

The Local Government Pension Scheme Regulations 2013, require each Administering Authority, to produce a Funding Strategy Statement, setting out a long term view on funding liabilities. The main areas covered by the statement are:

- The purpose of the statement:
  - Establishes a clear and transparent strategy which identifies how employers' pension liabilities are best met going forward;
  - Supports the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
  - Take a prudent longer term view of funding liabilities.
- The purpose of the Fund, i.e. receive contributions and make pensioner payments.
- The solvency and target funding levels of the Fund, i.e. 100% of the liabilities of the Fund can be met over the long term.
- The identification of key risks to the Fund, and the control mechanisms in place to mitigate these risks.
- Links to the Fund's investment strategy.
- The key responsibilities of the administering authority, scheme employers and the Fund's Actuary are also set out.

The latest Funding Strategy Statement was approved by the Pensions Panel and was effective from February 2019, and can be seen at

<http://www.teespen.org.uk/documents/index.php?name=FSS>

## Governance Policy

Under the Local Government Pension Scheme Regulations 2013 Middlesbrough Council, the Administering Authority to the Teesside Pension Fund, is required to draw up a Governance Policy which sets out the procedures for the governance of the Fund. In summary, the policy sets out that the administering authority delegates its functions under the above Regulations to the Kier Business Services Ltd (previously Mouchel Business Services Ltd) and administrator and the Teesside Pension Fund & Investment Panel to act in a similar manner to a Board of Trustees

The Policy also sets out the:

- Terms of reference of the Teesside Pension Fund and Investment Panel;
- Structure of meetings;
- Membership; and
- Principles of governance.

The current policy document can be viewed at:

[http://www.teespen.org.uk/documents/index.php?name=GOVERNANCE\\_2](http://www.teespen.org.uk/documents/index.php?name=GOVERNANCE_2)

## Communications Policy

Under the Local Government Pension Scheme Regulations 2013 Middlesbrough Council, the Administering Authority to the Teesside Pension Fund, is required to draw up a statement(s) of policy concerning communications with members and Scheme employers.

The Teesside Pension Fund actively communicates with all of its stakeholders, including the members, the employers and other external organisations. For example we have been providing every active member of the scheme with a statement of accrued benefits since 2001, well before it became compulsory to do so. The statement of accrued benefits also includes the member's State Pension Forecast to aid in their financial planning.

We also provide newsletters twice a year to all of our active and pensioner members, this allows us to inform participants of any scheme changes which may be made.

A Communications Policy Statement has been drawn up in order to ensure that the Fund offers clear communication to stakeholders of the Local Government Pension Scheme. The latest policy statement

## Statement of the Actuary for the year ended 31 March 2019

### 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 Teesside 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 31 March 2016 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

### Actuarial Position

1. The valuation as at 31 March 2016 showed that the funding ratio of the Fund had decreased since the previous valuation with the market value of the Fund's assets as at 31 March 2016 (of £3,133.1M) covering 100% of the liabilities allowing, in the case of pre- 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.
2. The valuation also showed that the theoretical aggregate level of contributions required to be paid by participating employers with effect from 1 April 2017 was:
  - 15.7% 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),

#### Less

- 0.1% of pensionable pay to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 20 years from 1 April 2017 (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 31 March 2017 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the Employers.
  4. The funding plan adopted in assessing the contributions for each individual Employer or group is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual Employers' recovery periods were agreed with the Administering Authority 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	4.7% p.a.
Rate of pay increases	3.0% p.a.
Rate of increase to pension accounts	2.0% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% p.a.

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 valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2016. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.
7. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the Employer contribution rates for the period from 1 April 2017 to 31 March 2020 were signed on 31 March 2017. Other than as permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2019 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

8. Since the date the valuation report was signed, there have been a number of developments in respect of the Local Government Pension Scheme (LGPS):
- **Increases to GMPs:**  
HM Treasury, in its response to the consultation on indexation and equalisation of GMPs in public sector schemes, announced an extension of the indexation of GMPs to those reaching State Pension Age on or before 5 April 2021 (previously 5 December 2018). This extension period was not allowed for in the valuation results as the actuarial valuation report was signed off in advance of this announcement, but the increase in liability is not expected to be material. In addition, on 26 October 2018 the High Court ruled in the Lloyds Banking Group case that schemes are required to equalise male and female members' benefit for the effect of unequal GMPs. Our understanding is that this will not alter HM Treasury's approach to GMP equalisation in the LGPS.
  - **Cost Management Process and McCloud judgement:**  
Legislation requires HM Treasury and the LGPS Advisory Board to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. Initial results from the Scheme Advisory Board process indicated that benefit improvements / member contribution reductions would be required. However, the cost management process has been paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sergeant) were age discriminatory; these cases could have knock on implications for the LGPS (potentially increasing the liabilities) which also had transitional arrangements when the new scheme was introduced with effect from April 2014.
9. The actuarial valuation of the Fund as at 31 March 2019 is currently underway and the Regulations require the formal report on the valuation and the Rates and Adjustments Certificate setting out employer contributions commencing from 1 April 2020 to be signed off by 31 March 2020. Asset values have increased in value since 2016, on its own leading to an improvement in the funding level due to higher than assumed investment returns. Liability values and employer contributions, as well as being affected by the items listed in paragraph 8 above, will depend upon membership factors, changes to expectations of future returns and other assumptions (including allowance for the slow-down in longevity improvements) and any changes to funding strategy made as part of the 2019 valuation.
10. This Statement has been prepared by the current Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2016. 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, Middlesbrough Borough Council, the Administering Authority of the Fund, in respect of this Statement.
11. The actuarial valuation report is available on the Fund's website at the following address:  
[http://www.teespen.org.uk/documents/content/pdf/Valuation/Valuation\\_2016.pdf](http://www.teespen.org.uk/documents/content/pdf/Valuation/Valuation_2016.pdf)

Aon Hewitt Limited

**May 2019**

The next actuarial valuation is due as at 31st March 2019 and results will be reported during 2019/2020.

## Schedule of Contribution Rates

Net rate of contribution payable by each employing organisation for the period 1 April 2018 to 31 March 2019 under regulation 62 of the Local Government Pension Scheme Regulations 2013.

	Employers Rate %	Employees £000	Employers £000
Ad Astra Academy Trust - Brougham Primary School	16.6%	19	55
Ad Astra Academy Trust - Rosebrook Primary School	16.6%	39	115
Ad Astra Academy Trust - West Park Primary School	16.6%	14	41
Ad Astra Academy Trust - West View Primary School and Sports Academy	16.6%	50	138
All Saints Academy	16.6%	23	64
Ash Trees Academy	16.6%	55	159
Beamish Museum Ltd	15.3%	161	376
Beyond Housing	17.2%	317	814
Billingham Town Council	16.2%	8	20
Business and Enterprise North East Ltd	11.7%	2	68
Caldicotes Primary Academy	16.6%	8	22
Care Quality Commission	17.9%	1,396	3,277
Catcote Academy	16.6%	91	261
Caterlink - RCBC	15.1%	8	21
Caterlink - St Oswald's	15.1%	3	8
Cleveland College of Art and Design	15.2%	115	276
Cleveland Fire Brigade	16.1%	232	618
Cleveland Fire Support Network	16.1%	3	6
Coast and Country Housing	17.2%	233	600
Community Integrated Care	23%	2	8
Conyers School	16.6%	94	264
Creative Management Services Ltd	18.9%	5	18
Crooksbar Primary School	16.6%	11	34
Diocese of Middlesbrough Trustee	21.6%	8	18
Dyke House Academy	16.6%	77	211
Easterside Academy	16.6%	28	82
Ecoclean Services Ltd	25%	0	1
Egglescliffe Primary School	16.6%	6	18
Emmanuel Schools Foundation	16.6%	58	166
Endeavour Academies Trust	16.6%	104	288
English Martyrs Educational Trust	16.6%	71	193
Enquire Learning Trust (Central)	16.6%	65	114
Erimus Housing	17.2%	(5)	(9)
Eskdale Academy	16.6%	14	41

Extol Academy Trust (Eldon Grove)	16.6%	29	81
Fabrick Housing Group	16%	1,038	2,436
Fleet Factors RCBC	16%	1	3
Forward Swindon Ltd	Nil	0	413
Frederick Nattrass Primary Academy	16.6%	17	49
Future Regeneration of Grangetown	20.9%	2	6
Galileo Multi Academy Trust	16.6%	195	558
Grangefield Academy	16.6%	36	99
Green Lane Primary Academy	16.6%	31	91
Guisborough Town Council	16.2%	5	14
Hardwick Green Primary Academy	16.6%	16	47
Harrow Gate Primary Academy	16.6%	28	81
Hartlepool Borough Council	15.4%	3,059	7,441
Hartlepool Care Services Ltd	20.6%	2	7
Hartlepool College of Further Education	15.2%	154	393
Hartlepool Sixth Form College	15.2%	24	61
Hemlington Hall Academy	16.6%	22	65
Hillsview Academy	16.6%	31	85
Holy Trinity Primary School	16.6%	15	44
Horizons Specialist Academy Trust	16.6%	168	466
Ian Ramsey Church of England Academy	16.6%	45	127
Ingleby Barwick Town Council	16.2%	2	5
Ingleby Manor Free School & Sixth Form	16.6%	33	93
Ironstone Academy Trust - Ormesby Primary School	16.6%	12	37
Ironstone Academy Trust - Zetland Primary School	16.6%	18	52
Jesmond Gardens Primary School	16.6%	24	70
Kader Academy	16.6%	14	40
KGB Cleaning Ltd – LJS	14.8%	1	3
Kier Business Services	15.3%	92	191
KTS Academy	16.6%	63	183
Legacy Learning Trust	16.6%	96	192
Liberata UK Ltd	Nil	41	0
Lockwood Parish Council	16.2%	1	3
Loftus Town Council	16.2%	2	4
Manor Community Academy	16.6%	50	142
Mellors Catering Ltd - Dormanstown	19.2%	1	4
Mellors Catering Services Ltd (Central)	19.2%	10	35
Mellors Catering Services Ltd (Normanby)	19.2%	3	10
Middlesbrough College	15.2%	434	1,067
Middlesbrough Council	15.3%	4,265	10,319
Nicholas Postgate Catholic Academy Trust	16.6%	295	815

NMRN Trading	17%	7	21
Normanby Primary School	16.6%	27	83
North Ormesby Primary Academy	16.6%	15	47
North Shore Academy	16.6%	37	103
Norton Primary Academy	16.6%	27	78
Nunthorpe Academy	16.6%	87	231
Nunthorpe Primary Academy	16.6%	13	38
Oak Tree Primary Academy	16.6%	28	82
One Awards Limited	15.3%	30	73
One IT Services and Solutions Ltd	15.2%	48	103
One IT Services Ltd - Porter	17%	2	5
ONsite Building Trust	17%	3	10
Orian Solutions Ltd	17%	1	4
Ormesby School	16.6%	1	3
Our Children 1st Academy Trust	16.6%	28	82
Our Lady & St Bede Catholic Academy	16.6%	41	118
Our lady of Light Catholic Academy Trust - Christ the King	16.6%	6	17
Our lady of Light Catholic Academy Trust - St Patrick's Catholic College	16.6%	12	35
Our lady of Light Catholic Academy Trust - St Patrick's Primary	16.6%	10	30
Our lady of Light Catholic Academy Trust - St Therese of Lisieux	16.6%	5	16
Outwood Academy Acklam	15.3%	74	158
Outwood Academy Bishopsgarth	16.6%	39	112
Outwood Academy Bydales	16.6%	31	88
Outwood Academy Ormesby	16.6%	39	112
Outwood Academy Redcar	16.6%	27	75
Pentland Academy	16.6%	22	65
Police & Crime Commissioner for Cleveland	14.6%	81	150
Redcar and Cleveland Borough Council	16%	3,078	7,692
Redcar and Cleveland College	15.2%	32	78
River Tees Multi Academy Trust	16.6%	43	116
Riverdale Primary School	16.6%	10	30
Rose Wood Academy	16.6%	21	61
Rye Hills Academy	16.6%	59	157
Sacred Heart Secondary Catholic Voluntary Academy	16.6%	11	31
Saltburn, Marske & New Marske Parish Council	16.2%	3	9
Skelton and Brotton Parish Council	16.2%	3	8
Skelton Primary School	16.6%	33	90
SLM Charitable Trust (MBC)	15.3%	56	137
SLM Community Leisure Charitable Trust	17.6%	37	98
SLM Fitness & Health Ltd (MBC)	15.3%	4	9
SLM Fitness and Health Ltd	17.6%	2	6



SLM Food & Beverage Ltd (MBC)	15.3%	5	12
SLM Food and Beverage Ltd	17.6%	2	5
South Tees Development Corporation	17.00%	39	79
St Aidan's Primary School	16.6%	19	57
St Benedicts Primary Catholic Voluntary Academy	16.6%	7	19
St Hilda's Catholic Academy Trust	16.6%	86	240
St Mark's Academy	16.6%	25	73
St Thomas of Canterbury MAT	16.6%	36	106
St_Bede's Catholic Academy	16.6%	16	46
St_Bedes Primary Catholic Voluntary Academy	16.6%	7	20
St_Gabriel's Catholic Voluntary Primary Academy	16.6%	6	18
St_Gregory's RC Academy	16.6%	18	54
St_Josephs Primary Catholic Voluntary Academy	16.6%	4	10
St_Margaret Clitherow's Catholic Voluntary Primary Academy	16.6%	8	22
St_Mary's Catholic Voluntary Primary Academy	16.6%	7	19
St_Michael's Catholic Academy	16.6%	33	93
St_Paulinus Primary Catholic Voluntary Academy	16.6%	5	14
St_Peter's Catholic Voluntary Academy of Maths and Computing	16.6%	19	52
Stagecoach Transit	27.2%	4	179
Steria Ltd	14.6%	404	905
Stockton Borough Council	15.6%	4,646	11,436
Stockton Riverside College	15.2%	280	676
Stranton Academy Trust (Stranton)	16.6%	31	88
Sunnyside Academy	16.6%	48	139
Tascor Services Ltd - PFI	17.7%	1	4
Tees Active Limited	16.5%	116	289
Tees Valley Collaborative Trust	15.2%	80	220
Tees Valley Combined Authority	15.9%	252	529
Tees Valley Community Asset Preservation Trust	17%	2	6
Tees Valley Education Trust	16.6%	74	206
Teesside Learning Trust	16.6%	100	268
Teesside University	14.4%	1,936	4,349
The Chief Constable for Cleveland	14.6%	816	1,772
Unity City Academy	16.6%	55	152
Viewley Hill Academy Trust	16.6%	15	44
Vision Academy Learning Trust	16.6%	133	360
Wynyard Church of England Primary School	16.6%	9	25
Yarm Primary School	16.6%	23	65
Yarm Town Council	16.2%	2	4
<b>Total Contributions 2018/19</b>		<b>27,191</b>	<b>67,336</b>

# 7. Glossary of Terms



Middlesbrough 5k Run

## Glossary of Terms

### **Accounting Period**

The period of time covered by the accounts; normally a period of 12 months commencing on 1st April and ending as at the balance sheet date of 31st March.

### **Accrual**

A sum included in the accounts to cover income or expenditure attributable to the accounting period covered by the accounts but for which payment had not been received/made at the balance sheet date.

### **Accrued Benefits**

The benefits for service up to a given point in time, whether vested rights or not.

### **Actuarial Gains and Losses**

For a defined benefit scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses) or the actuarial assumptions have changed.

### **Actuarial Valuation**

A valuation of assets held, an estimate of the present value of benefits to be paid and an estimate of required future contributions, by an actuary, on behalf of a pension fund.

### **Accumulated Absences Account**

A requirement under IFRS is that the Council must make an accrual in its accounts at year end for any annual leave earned but not taken by employees at the end of the financial year.

### **Admitted Bodies**

Organisations that participate in the Teesside Pension Fund under an admission agreement between the Fund, and the relevant organisation.

Admitted bodies include voluntary and charitable organisations and private contractors that are undertaking a local authority function following an outsourcing to the private sector.

### **Annual Governance Statement**

The Annual Governance Statement is compiled following the review by the Council of the effectiveness of the systems of internal control and governance arrangements.

### **Assets Held for Sale**

Assets held for sale are those where the value of the asset will be recovered by selling the asset rather than through usage. To be classed as held for sale the asset must meet the following criteria:

- be available for immediate sale in its present condition.
- It's sale must be highly probable.
- management expects the sale to take place within twelve months.

### **Assets Under Construction**

At any time some projects will be incomplete and will need to be classified as 'fixed assets under construction'. The term can include assets which are complete but not yet operational, as well as items that are not complete. It is usual for assets under construction to be recognised but recorded as non-operational until they are brought into use, at which point they are recognised as operational assets.

### **Audit**

An independent examination of the Council's activities, either by internal audit or the Council's external auditor.

### **Balance Sheet**

A statement of the balances and reserves at the Local Authority's disposal, the net current assets employed in its operation and the value of fixed assets held.

### **Budget**

A statement reflecting the Council's spending plans for a specific period. The annual revenue budget is normally finalised and approved in February prior to the commencement of the new financial year.

**Capital Charges**

A charge to service revenue accounts to reflect the cost of utilising fixed assets in the provision of services.

**Capital Expenditure**

Expenditure on the acquisition of a fixed asset or which adds to the value of an existing fixed asset.

**Capital Adjustment Account**

The Capital Adjustment Account reflects the difference between the cost of fixed assets consumed and the capital financing set aside to pay for them.

**Capital Financing**

The methods of financing capital expenditure. This includes borrowing, direct revenue financing, leasing, the use of capital receipts, capital grants and external contributions.

**Capital Grant**

Grant from Central Government used to finance specific schemes in the capital programme.

**Capital Receipts**

Proceeds from the sale of capital assets. Such income may only be used for capital purposes, i.e. to repay outstanding borrowing or to finance new capital expenditure. Any receipt which have not yet been utilised, are referred to as "Capital Receipts Unapplied".

**Cash and Cash Equivalents**

Cash equivalents are - "short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value". They are shown in the Balance Sheet along with cash under the heading "Cash and Cash equivalents".

**Collection Fund Account**

This account records the income received by the Council in relation to local taxation and non-domestic rates. It also shows how the income has been distributed to the preceptors and to the general fund.

**Community Asset Transfer**

A change in management and/or ownership of land or buildings from public bodies (most commonly local authorities) to communities (community and voluntary sector groups, community enterprises, social enterprises, etc.)

**Component Accounting**

Where assets can be broken down into different components which have a material value and substantially different economic lives, then each component should be separately valued.

**Contingency**

The sum of money set aside to meet unforeseen expenditure or liability.

**Contingent Asset**

A contingent asset arises in a situation where a potential inflow or economic benefit to the authority will only be confirmed by the occurrence or otherwise of some future event but where the value of the benefit cannot be measured reliably.

**Contingent Liability**

A contingent liability is either:

- 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 authority's control; or
- a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.
- .

**Creditors**

Amounts owed by the Council for work done, goods received or services provided by the end of the financial year for which payment has not yet been made.

**Current Assets**

An asset which will be consumed or cease to have material value within the following financial year (e.g. stocks and debtors).

**Current Liabilities**

These are amounts owed by the Council due for payment within the following financial year (e.g. creditors or cash overdrawn).

**Current Service Costs (Pensions)**

The increase in the present value of a defined benefit pension scheme's liabilities arising from an employee's service in the current financial year.

**Curtailed (Pensions)**

An event that reduces the expected years of future service of present employees in a defined benefit pension scheme or reduces the defined benefits for some or all of their future service.

**Debtors**

Income due to the Council for services carried out or grants/contributions due in the financial year for which payment has not been received by the end of that year.

**Deferred Pensions**

Individuals who have ceased to be active members of a pension scheme but are entitled to benefits payable at a later date.

**Defined Benefit Scheme**

A pension scheme which calculates benefits due from the scheme independently to the contributions payable and the return on the investments made by the scheme.

**De-minimis**

For capital accounting, a de-minimis value is set below which any items of expenditure are excluded from the capital accounts and instead treated as revenue expenditure. The Council's de-minimis levels are outlined in the statement of accounting policies.

**Depreciation**

The allocation of the cost of consuming a tangible asset cost over its useful life. Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, passage of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

**Direct Revenue Financing**

The financing of capital projects from revenue resources.

**Discretionary Benefits**

Retirement benefits, which the employer has no legal, contractual or constructive obligation to award and which are awarded under the authority's discretionary powers.

**Earmarked Reserves**

Funding set-aside to be used for a specific purpose at some point in the future.

**Expected Rate of Return on Pension Assets**

The average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

**Extraordinary Items**

Transactions that fall outside of the ordinary activities of the council and are not expected to reoccur.

**Financial Reporting Standard (FRS)**

Standards developed by the Accounting Standards Board to regulate the preparation and presentation of financial statements in the UK.

**Non-Current Assets**

Assets that have a useful life and yield benefits to the Council and the services it provides for a period of

more than one year.

### **General Fund**

The main revenue account used to fund the cost of providing Council services. The main sources of income credited to the fund are the council tax and business rates precepts and the revenue support grant (RSG) from central government.

### **Heritage Assets**

A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

### **Impairment**

The diminishing in quality, strength amount, or value of an asset.

### **IFRS - International Financial Reporting Standards**

International Financial Reporting Standards (IFRS) are a set of [international accounting standards](#) stating how particular types of [transactions](#) and other events should be reported in [financial statements](#). IFRS are issued by the International Accounting Standards Board and specify exactly how organisations must maintain and report their accounts.

Local Authorities have had to prepare their accounts in accordance with IFRS requirements since April 2010.

### **Intangible Assets**

An asset that is not physical in nature. Examples of this type of asset include IT software and other licences and patents and trademarks.

### **Investment Property**

An investment property is defined as a property, which is held exclusively for revenue generation or for the capital gains that the asset is, expected to generate.

### **Leases**

A lease is a contract between a lessor and leasee for the hire of a specific asset with the ownership of the asset being retained by the lessor. There are two main types of lease, operating and finance leases.

A finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee and the minimum lease payments amount to substantially all (90% or more) of the fair value of the leased asset. An operating lease is a lease other than a finance lease.

### **Local Management of Schools**

Under the Local Management of Schools Funding arrangements, the Council is required to pass on the calculated share of each funding stream budget directly to all its schools. Individual schools have direct responsibility for managing their budgets and any surplus or deficit incurred in the financial year is carried forward to the following financial year as part of the schools balances earmarked reserve.

### **Materiality**

A figure is classified as material if its omission or misstatement could influence decisions users take on the basis of the financial statements.

### **Minimum Revenue Provision (MRP)**

The minimum amount Local Authorities are required to set aside each year for the repayment of outstanding long-term debt.

### **Movement in Reserves Statement**

This statement highlights the movement in the year for the earmarked reserves held by the Council. This is split between 'usable reserves' (those held to fund future expenditure) and unusable reserves (technical accounting adjustments).

### **Non-Domestic Rates (also known as Business Rates)**

Charges paid by occupiers of non- domestic properties for council services. The charge is calculated by multiplying the rateable value of a property by a multiplier set by Central Government.

### **Net Book Value**

The current value of a fixed asset after taking account of depreciation.

**Non-Operational Assets**

Fixed assets owned by the Council but not currently being used in the delivery of services. They include surplus properties awaiting disposal, investment properties and assets under construction.

**Operational Assets**

Fixed assets owned by the Council and used in the delivery of Council services.

**Operating Segments**

The breakdown of the Council's activities into distinct service divisions/ outcome areas.

**Past Service Cost**

The increase in the present value of a defined pension scheme liabilities relating to employee service in prior periods arising as a result of the introduction of, or improvement to, retirement benefits.

**Post Balance Sheet Events**

There are two types of post balance sheet events. Adjusting events are those events that provide additional evidence of conditions that existed at the balance sheet date and require adjustments to be made the accounts. Non adjusting events are those events after the balance sheet date which provide evidence of conditions not existing at the balance sheet date. These may require disclosure in the accounts stating the nature of the event and an estimate of the financial impact.

**Precept**

The levy made on the council by other bodies for income collected from Council taxpayers on their behalf e.g. Fire or Police Authority.

**Provisions**

Funds set aside to cover liabilities which are likely or certain to be incurred at a future date but where the exact amount and timing of the liability is currently not known.

**Prudence**

The **accounting** principle that requires liabilities and expenses to be recorded as soon as they occur, but revenues only when they are assured or realised.

**Related Parties**

Two or more parties are considered to be related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same sources; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interest; or the parties in entering a transaction are subject to influence from the same source to such an extent that one of the parties to the transactions has subordinated its own separate interests.

**Related Party Transactions**

A related party transaction is the transfer of assets or liabilities or the performance of services by, or for, a related party irrespective of whether a charge is made.

**Revaluation Reserve**

The balance sheet reserve that records increases in the valuation of fixed assets that have not yet been realised through the disposal of the asset. Decreases in asset valuations are also taken to the revaluation reserve if an asset has previously had an increase in valuation.

**Reserves**

Unutilised resources set aside to fund future costs.

**Revenue Expenditure**

The day-to-day costs incurred in providing Council services. This includes staffing, supplies & services, transport and utility costs etc.

**Revenue Support Grant**

The main source of Central Government grant funding for Local Authorities.

**Scheduled Bodies**

Local authorities or similar organisations whose staff are automatically entitled to become members of the Teesside Pension Fund.

**Specific Grants**

Government grants awarded to Local Authorities and earmarked for specific services, e.g. Standards Fund Grant for Children's Services.

**Stocks (Inventories)**

Goods or merchandise available for sale or distribution held at the balance sheet date. This can include the following:

- goods or other assets purchased for resale.
- consumable stores.
- raw materials and components purchased for incorporation into products for sale.
- products and services in intermediate stages of completion.
- long-term contract balances, and finished goods.

**Useful Life**

The period over which the Council will derive benefits from the use of a fixed asset.

**Work in Progress**

The total value of the materials and labour costs incurred to date on unfinished projects