

# Middlesbrough Council Draft Statement of Accounts 2019/20



*Big Weekend Music Festival Middlesbrough – May 2019*

# Contents

1. NARRATIVE REPORT AND WRITTEN STATEMENTS	2. CORE FINANCIAL STATEMENTS	3. NOTES TO THE ACCOUNTS	4. COLLECTION FUND	5. GROUP ACCOUNTS	6. TEESSIDE PENSION FUND	7. ANNUAL GOVERNANCE STATEMENT	8. GLOSSARY OF TERMS
Narrative Report	Movement in Reserves Statement	Detailed Notes to the Accounts	Income and Expenditure Account		Pension Fund Statement of Accounts		
Independent Auditors report – Middlesbrough Council	Comprehensive Income and Expenditure Statement		Notes to the Collection Fund		Notes to the Pension Fund		
Independent Auditors report – Teesside Pension Fund	Balance Sheet						
Statement of Responsibilities Middlesbrough Council	Cash Flow Statement						
Statement of Responsibilities – Teesside Pension Fund	Expenditure and Funding Statement						
Page 02	Page 24	Page 31	Page 90	Page 94	Page 96	Page 134	Page 156

The Statement of Accounts for Middlesbrough Council provides an overview of the Council's financial position at 31 March 2020 and a summary of its income and expenditure during the 2019/2020 financial year. 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) under [Statement of Accounts](#).

The Council's Corporate Affairs and Audit Committee are expected to consider the Accounts for approval on 24 September 2020. 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 and any issues or amendments made as part of the audit.

# 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 ([www.middlesbrough.gov.uk](http://www.middlesbrough.gov.uk)).

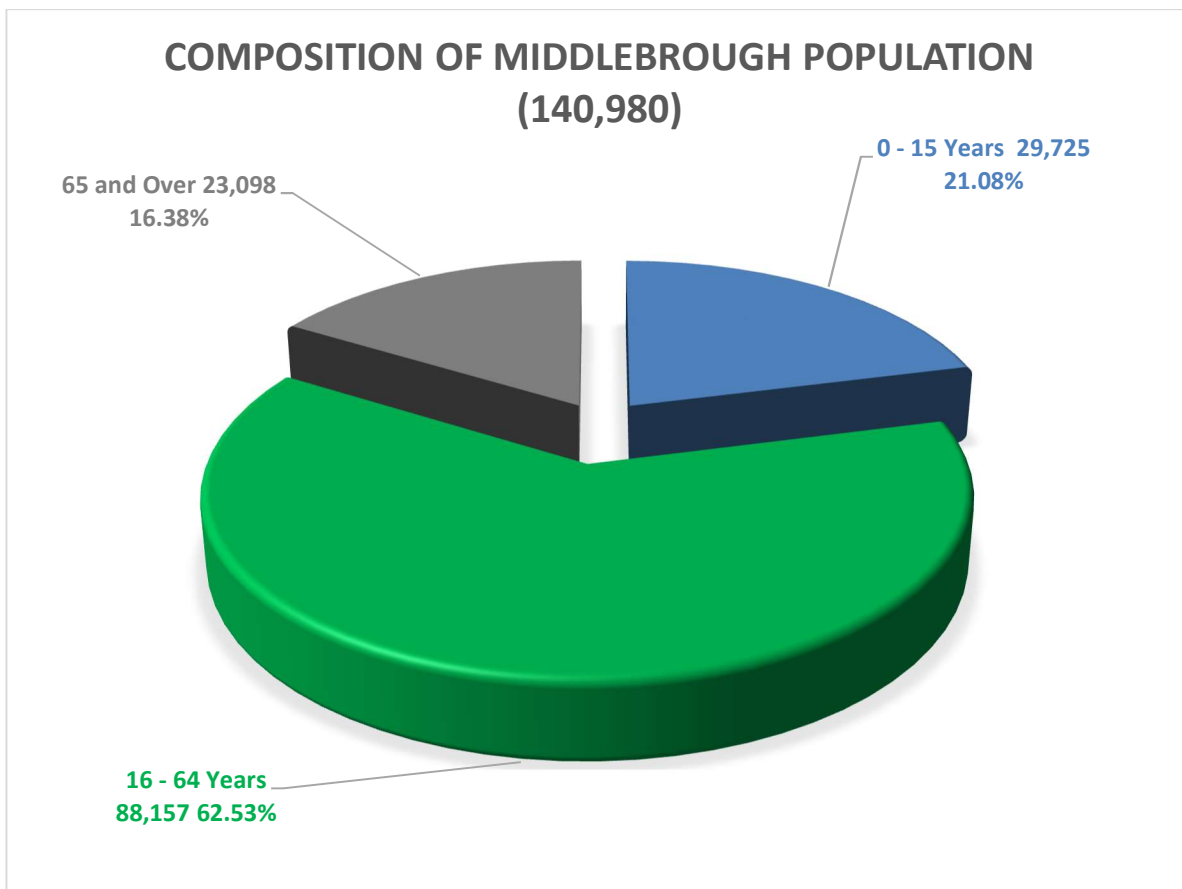
At 31<sup>st</sup> March 2020, the United Kingdom was in the early stages of an unprecedented public health pandemic due to Covid-19. Although most of the long-term effects of the virus and a return to normal are at present unknown and will affect predominantly future financial years the narrative report and the Statement of Accounts will aim to give some context as to its early stages and the impact on the Council's financial position.

## 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 3,400 people.

## Population and Related Economic Statistics



Source: Office of National Statistics Mid-Year Estimates 2019

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 2019– December 2019 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 2019/20**

The local government elections of May 2019 created real change in the town as it was the first time since its creation in 1996 that the Labour Party has not held control at the Council. This financial year is also the first under the leadership of the new independent Mayor, Andy Preston who has developed a new Strategic Plan and ambitions for the Town, supported by 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 an independent led administration during most of 2019/20 with Labour managing the Overview and Scrutiny Board which scrutinises the work of the Executive.

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 2020 was:

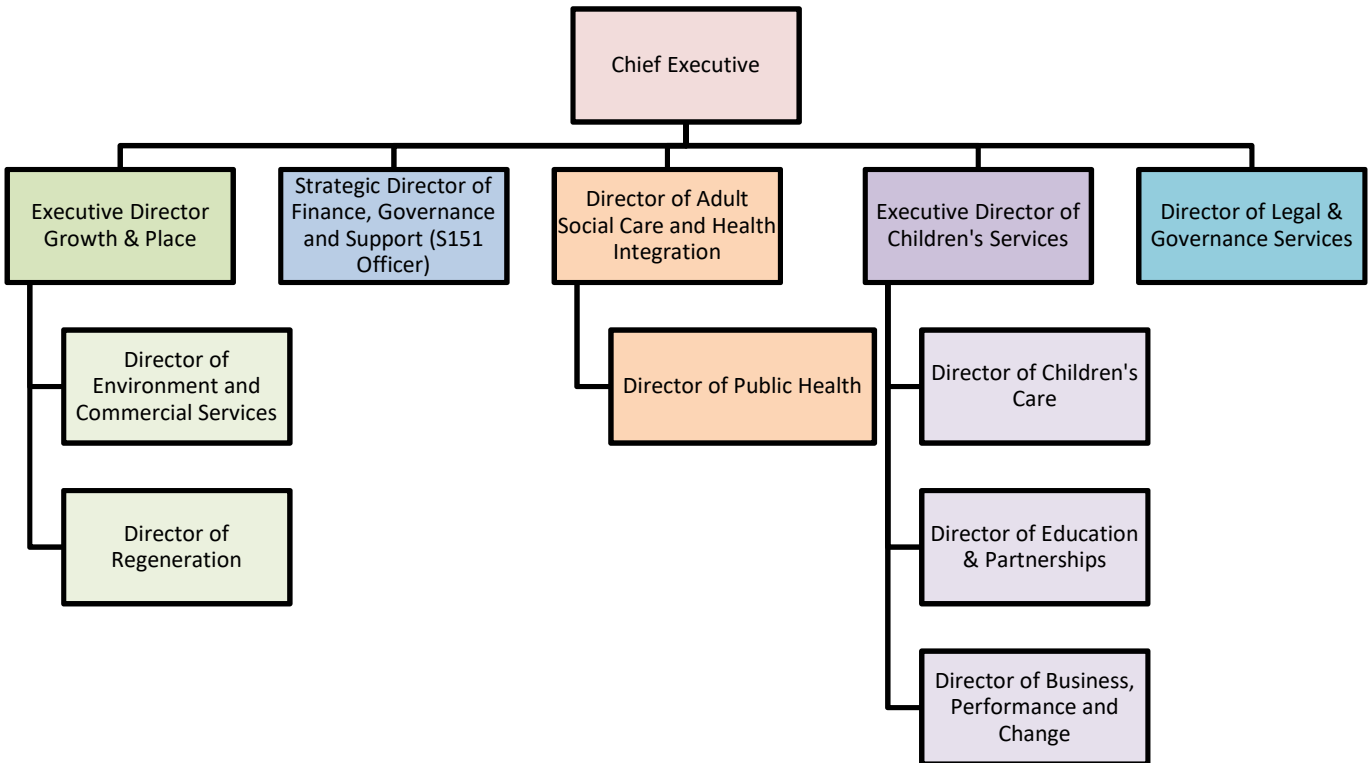
Elected Members	47
Mayor Andy Preston (Independent)	1
Middlesbrough Independent Councillor's Association	15
Middlesbrough Independent Group	8
Labour	20
Conservative	3

2019/20 has been a transitional year for the Council with the Strategic Plan, Budgets and Medium Term Financial Plan developed and set by the outgoing Labour administration. However during the year the new Mayor and Executive have started to set out and shape their vision and priorities for the next four years with a new Strategic Plan being approved by the Council in January 2020, replacing the previously separate Vision (2020-25) and Strategic Plan (2020-2023).

## Management Structure

### Leadership Team

The existing management structure at 31<sup>st</sup> March 2020 is set out below:



### The Mayor's Ambitions for Middlesbrough and the Strategic Plan:

Andy Preston is the Mayor of Middlesbrough for the period 2019-2023. Although Mayor Preston was the leader of the Council for most of the 2019/20 financial year, the Strategic Plan (2020-2023), which includes his key priorities, was not formally approved by the Council until 15 January 2020. This section will initially concentrate on performance against the previous Strategic Plan that was reported on to the Executive until the third quarter of this financial year, with some later comments on the development and delivery against the new strategic plan.

Up until January 2020 the Council's approach to delivering the Mayor's Vision 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.

From January onwards this changed to People, Place and Business in the revised Strategic Plan (2020-23):

- **People** – Working with communities and other public services to improve the lives of our residents
- **Place** – Securing improvements in Middlesbrough's housing, infrastructure and attractiveness, improving the town's reputation, creating opportunities for local people and improving our finances.

- Business – Promoting investment in Middlesbrough’s economy and making sure we work as effectively as possible to support our ambitions for People and Place.

This Plan is the Council’s overarching business framework, outlining the Council’s contribution to the Mayor’s priorities is articulated within this plan. There is a ‘golden thread’ which runs from this document through the rest of the Council’s governance and policy frameworks.. Progress against the plan is reviewed on a quarterly basis and reported to Executive and Overview and Scrutiny Board.

## Strategic Plan

This Strategic Plan is designed to:

- Set out the Mayor’s priorities for Middlesbrough; and
- the Council’s overarching business plan for the medium term..

## 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:

- Support redevelopment of the Middlehaven area;
- 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 Middlesbrough Development Company.

## Customer Strategy (2018-22)

The Customer Strategy outlines the measures the Council will take to ensure customers are at the heart of the development and delivery of services.

## 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 used a Balanced Scorecard approach to measure performance during the first nine months of the year. Overall performance on the Strategic Priorities of the Council has resulted in 23 of the 30 priorities being classed as on target.

Below are the results per priority for 2019/20 (to Quarter 3) – G indicates indicator on target, A indicates minor issues and R indicates concerns:

<b>Business Imperatives</b>	
<b>Priority</b>	
In-year financial performance relative to Council budget.	R
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>Priority</b>	
Promote a Middlesbrough 'brand' to improve the town's reputation, attract new investment, visitors and residents, and add to civic pride.	G
Implement our 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
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



Continue to grow our business base, with new commercial workspace and support for innovation sectors.	G
Build 1,800 new homes to meet the needs and ambitions of a growing population.	A
<b>Social Regeneration</b>	
<b>Priority</b>	
Continue to strengthen the local economy, creating 3,400 new jobs and increasing the number of local services we commission.	A
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
Increase educational and vocational attainment for all children and adults by working with nurseries, schools, colleges, Teesside University, other education and vocational training providers and local employers.	A
Continue to promote the welfare of our children, young people and vulnerable adults and protect them from harm, abuse and neglect.	A
Transform Children's social; work and early help, to allow for more families to stay together where it is safe to do so and to reduce the need for children to be looked after by the Council.	R
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
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
Create more affordable housing to develop balanced, sustainable communities where people want to live.	A
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
Work with local communities to redevelop Middlesbrough's disadvantaged estates, such as those in North Middlesbrough, and to put in place our empty homes strategy.	G
Change perceptions of Middlesbrough and raise local aspirations, working with partners to give local communities the opportunity to influence how the Town is transformed and how local public services are changed and improved.	G

The Council commenced reporting against the new Strategic Plan (2020-23) for the last Quarter of the year.

## Directorate Achievements.

### Regeneration

- Rebranded the Housing Delivery Vehicle to Middlesbrough Development Company to bring underused assets back into use and revitalise local communities. An initial project has now been approved and others are being evaluated for further discussion with the Council.
- Achieved practical completion on the construction of Grade A office buildings 1 & 2 in Centre Square, to stimulate the commercial property market
- Made significant progress on the development at Tees Advanced Manufacturing Park that will provide 180,000 sq ft of high quality business floor space with the site operational from July 2020.
- Managed successfully the Radio1 Big Weekend music event towards the end of May with multiple partners. An event that got the Town recognised in the national media.
- Securing of funding for Boho Next Generation.
- Ambitious vision and plans for the delivery of Boho X. An iconic building that will create circa 80,000 sqft of high quality, flexible office accommodation for the creative and digital sector that will rival any development in the UK.
- Successful planning application for Boho 8, a 10,000 square foot high quality office accommodation for the Digital Cluster
- A66 Throughabout. Physical work started on site for this major development on the A66/Cargo Fleet lane junction. The improvements will provide significant benefits, particularly surrounding reducing journey time associated with increased housing development and economic growth.

### Environment and Commercial Services

- The North East Migration Partnership team was welcomed into the service and worked hard with partners on the transition to the new accommodation and support contract provided by Mears for asylum seekers.
- The service was successful in securing Urban Tree Challenge Fund grant from the Forestry Commission towards the Mayor's initiative to plant 10,000 trees across the town in order to enhance green spaces, and improve health and wellbeing.
- Significant work to improve flood defences have been completed in conjunction with the Environment Agency and Northumbrian Water resulting in reduced risk to properties and minimising environmental impacts.
- Community Safety Team have implemented the Public Space Protection Order (PSPO) in the TS1 area and the teams are now challenging unwanted behaviour and where appropriate issuing fines to people who breach the order.
- The warden service has been increased significantly by amalgamating the Councils enforcement functions and recruiting additional staff with the support of grant funding from TVCA. In addition to carrying out the enforcement role the wardens also offer advice and support to people when they are out on their patrols.

### Public Health and Public Protection

- Received a national Local Authority Achievement Award for 'Improving Public Health' for The Live Well Centre in central Middlesbrough.
- Supported the successful acquisition of Pocket Parks funding for regeneration of Henry Street, North Ormesby to encourage exercise within the Community.

- Secured funding to roll out screening saves lives approach for Middlesbrough residents.
- Made significant progress in extending the Dementia Friends programme within the local area.
- Supported the bid and hosting of the national Recovery Walk. Over 2000 people took to the streets at a local event in celebration of recovery.
- Supported the achievement of a 7% percentage point reduction in smoking in pregnancy and significant reduction in smoking prevalence in Middlesbrough.

### **Children's Services**

- Successful delivery of Troubled Families programme.
- 'Good' judgement in HMIP inspection of Youth Offending Service.
- 'Good' judgement in Ofsted inspection of Community Learning.
- Positive feedback from SEND re-inspection.
- Creation of Strategic Education Board including all education sectors in Middlesbrough

### **Adult Social Care and Health Integration**

- The service continues to score more highly than the England average on all included measures in the 2019/2020 Adult Social Care Outcomes Framework survey, a statutory return submitted by service users.
- The Staying Put Agency has been shortlisted in the Team of the Year category of the prestigious Local Government Chronicle Awards and was also "Commended" in the national Foundations Healthy Housing Awards 2019.
- One of our staff won the title of Occupational Therapist of the Year in the national Foundations Healthy Housing Awards 2019.
- Our hospital social work team based at James Cook University Hospital provided extended hours hospital discharge support, seven days per week, throughout the first phase of the COVID-19 pandemic response.

### **Finance, Governance & Support**

- We achieved an unqualified set of Financial Statements and Value for Money opinion from our external auditor for 2018/19.
- We are continuing to modernise our working practices – 80% 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.
- We have developed and invested in the Councils CRM (Customer Relationship Management) solution which has allowed this to play an integral role in managing the needs of thousands of vulnerable citizens through both the Boro and Shielding Hubs as part of the COVID-19 response effort.
- Creation of the new strategic plan and vision for the Council working with the Mayor and Executive.
- We are leading the way with a completely new approach to Council Tax collections known as 'Stop the Knock' which has seen the use of bailiffs to collect unpaid bills brought to an end for those in receipt of Council Tax support and our most vulnerable residents.
- We have been proactive in our approach to the processing and payment of business support grants. A £10,000 grant was issued to a local company on 20 March 2020 only two days after the national scheme was announced by the Secretary of State. The first in the Tees Valley area. Over £23m of grants to small businesses have now been paid to allow businesses to keep afloat during Covid-19.

- We have developed our relationship with Border to Coast Pensions Partnership further during the year and completed the triennial review of the Pension Fund to inform employers future contribution rates.

## Governance

The Council's governance arrangements that underpin the Council's processes and financial systems are set out in the Annual Governance Statement that follows the financial statements and notes to the accounts. (see Section 7).

## Future Challenges/Uncertainties

### Children's Services

In December 2019 Ofsted completed an inspection of the Council's compliance with the Inspection of Local Authority Children's Services (ILACS) framework. The outcome of that inspection was a judgement across four categories:

Judgement	ade
The impact of leaders on social work practice with children and families	Inadequate
The experiences and progress of children who need help and protection	Inadequate
The experiences and progress of children in care and care leavers	Inadequate
Overall effectiveness	Inadequate

OFSTED uses a system of four grades in their judgements, Outstanding, Good, Requires Improvement and Inadequate. As such the Middlesbrough judgement is the lowest possible grading that can be received and requires a timely and effective response from the Council. This was reported to Members, along with details of a 12 week improvement plan that has now been delivered with good progress made. During that period the Council has worked with the Department of Education (DfE), OFSTED and a DfE appointed Commissioner to deliver the plan and provide assurance around the longer term plans of the Council.

A report from the Commissioner released in June 2020, but partly covering the period of time within the scope of this AGS, stated that good progress has been made to date to respond to the challenges set out in the OFSTED report and at this stage the Commissioner believes the Council should retain its safeguarding services.

### Covid-19

During 2019/20 the Council and town began to experience the impact of the Covid-19 virus that was first reported to the World Health Organisation on 31 December 2019. On 16 March 2020, shortly before the end of the reporting period for this report, the Council invoked its Major Incident Plan and embedded business continuity structures within it to ensure an effective response was put in place to manage both the impact on the town and the impact on the Council's services.

£878,000 of costs and lost income incurred up to 31 March 2020 was charged to the Government's emergency response fund grant.

Separate reports on the response to date have been submitted to Executive in June 2020. The 2020/21 Annual Governance Statement will contain a deeper review of the governance response to this pandemic.

As well as having significant impacts on both public life and the way the Council delivers its services, the financial impacts of on the Council are also expected to be severe. The cost of responding to the pandemic, the impact on key income streams such as council tax and business rates as well as loss of income from delivering key services plus the disruption to savings plans already in place. These will all put great strain on the financial position over the short to medium term. The Council will be reliant on an appropriate support package from Central Government to safeguard financial stability.

In addition, there is more uncertainty in relation to the valuation of assets and liabilities within the accounts at 31<sup>st</sup> March 2020 due to Covid-19, particularly long-term items such as property, plant & equipment including investment property, financial instruments and pensions assets & liabilities. In these cases specialist valuers have been employed to calculate balance sheet amounts given the sensitivities and uncertainty involved. The

general view is that there is risk involved in the valuations and not as much reliability can be attached as in usual circumstances. However, it is still deemed to be too early to properly quantify the financial effects of Covid-19 and this will only become apparent after the global and UK economy recover which could take a number of years.

## ***Brexit***

Although somewhat superseded by Covid-19 during the first half of 2020, the Country's eventual departure from and future relationship with the European Union is still unclear. Planning still continues within the Council, particularly around a 'no deal' scenario with contingency plans already developed. What the eventual agreed arrangement will be and what this might mean in financial terms, subsequent risks and impact on the Council's budget and financial plans is still unclear.

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

A new Local Government finance system was expected to be implemented commencing from the 2021/22 financial year following the outcome of the Fair Funding Review. The new system was 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. The timescale for implementation of these proposals has been delayed initially due to Brexit and then subsequently due to Covid-19. The 2021/22 settlement now looks like being a one-year funding agreement based on the old system, with the earliest any new system could be introduced being 1 April 2022.

## ***Middlesbrough Development Company***

During 2018/19, the Council created MHome, a Housing Delivery Vehicle (HDV) as a local authority trading wholly owned company limited by shares with the council as the sole shareholder. It was reported in the 2018/19 AGS. During 2019/20, the body has met 6 times.

It has taken the following significant decisions:

- £3.5m investment into redeveloping Tollesby Shops

During 2019/20 £0.65m was transferred to the HDV for the Tollesby Shops project. £55,000 of this was spent during the year, and £0.595m remained in balance at 31/3/2020. The balance was generally due to project delays and the impact of Covid-19. During 2020/21 the company's website will be developed further and information on meetings and decisions will start to be published where appropriate.

## **Financial Review 2019/20**

### ***Revenue Budget***

In preparing the 2019/2020 draft revenue budget and Medium Term Financial Plan, the following principles, consistent with budget strategies in previous years and statements made by Executive have been adopted:

- to ensure that resources are 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 in line with Government assumptions on income raising;
- to maintain appropriate balances, central provisions and earmarked reserves;
- to make appropriate provisions for assessed liabilities;
- to make services fully accountable for their own budgets and spending, including additional pressures. Calls on the Medium Term Financial Plan should only be made when local and directorate resources are exhausted;
- to maintain 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 address structural budget issues;
- services will receive, in full, the impact of contractual inflationary increases (including pay awards). No inflation will be provided for general supplies and services, which are expected to be met from efficiency savings; and
- to ensure effective budget consultation processes are followed.

To ensure that the impact of legislative changes are considered as part of the budget setting process and in view of the continued effect of austerity on the Council's Medium Term Financial position it is proposed to agree the following, additional, budget setting principles: -

- to embed unit cost budgeting principles to understand the cost of delivery and ensure charges reflect the local market;
- to support budgetary investment in economic growth to drive increase in income through council tax and business rates;
- on termination of a specific grant, a business case for any continued funding will be prepared, which will need to be assessed against other pressures on the Medium Term Financial Plan;
- all specific reserves require approval by the Chief Finance Officer.
- uncommitted funds may need to be used to fund pressures elsewhere;
- any revenue budget where there has been a significant underspend for two or more years will be reviewed with a view to reallocating funds;
- the Investment Strategy will be reviewed regularly to ensure an ongoing need for allocated funding with a view to reallocating funds which are not required; and
- a consistent framework for budgeting for staff costs will be implemented.

In setting the revenue budget for 2019/20, service budget reductions totalling £9.9 million were approved by the Council on 4 March 2019 together with a 4.99% increase in Council Tax (2.99% increase in general council tax and an increase in the adult social care precept of 2.00%).

The revenue budget for 2019/20 was set at £111.926 million, funded as set out below:

	<b>£m</b>
Revenue Support Grant	11.959
Business Rates Top Up Payment	26.861
Local Share of Business Rates	17.451
Council Tax	55.285
Collection Fund Balance	0.370
<b>Total net revenue budget in 2019/20</b>	<b>111.926</b>

### ***Budget Outturn 2019/20***

The Budget Outturn position was reported to Executive on 16<sup>th</sup> June 2020 and summarised the Council's financial outturn in respect of the revenue budget and capital programme.

#### *Revenue*

The Council's total net revenue expenditure for 2019/20 was £118.517 million, a net pressure of £6.591 million against the net budget of £111.926 million.

The table below summarises the final revenue position by Directorate.

Department / Directorate	Full Year Budget £'000	Full Year Outturn £'000	Over/(under) spend £'000
Growth & Place	25,294	25,537	243
Public Health and Public Protection	(1,110)	(1,373)	(263)
Children's Services	35,384	42,610	7,226
Adult Social Care and Health Integration	38,137	37,832	(305)
Finance, Governance and Support	12,273	11,512	(761)
Legal and Governance Services	1,948	2,399	451
<b>Revenue outturn</b>	<b>111,926</b>	<b>118,517</b>	<b>6,591</b>

The significant revenue budget pressure experienced during 2019/20 was in relation to Children's Services where additional costs experienced on Children's Care (mainly residential placements, in-house foster carers, independent fostering agency payments and family and friends' allowances) ended up being £7.9m over budget. The Children's directorate as a whole coming in £7.2m over budget.

These additional costs on Children's Services reflect a national trend of rising demand for these services but demand this year has been particularly high and above forecast within the Middlesbrough area. The directorate management team throughout the year put additional savings proposals forward with some partial success but the rising demand issues overwhelmed much of this. The pressures have been factored into the Council's medium term financial plan on an ongoing basis, with some of the savings measures reaping rewards in 2020/21 and future financial years.

This over spend position corporately for the Council was mitigated by regular savings exercises co-ordinated across all directorates and through stringent financial controls on expenditure budgets and an additional focus on income generation. However, given the scale of the demand led pressures in Children's Services a considerable overspend of £6.6m was finally delivered.

The revenue over budget position was funded by a combination of earmarked revenue reserves and in part from the general fund balance. At £9.4m the balance on this fund is now at the minimum level prescribed by the Council's chief finance officer within current budget assumptions. Any future overspending will need careful management to ensure that reserves do not go below this in the short to medium term. As part of the Outturn Report, the Council's Executive has recommended a fundamental review of the medium term financial plan before the budget for the 2021/22 financial year is set. This will allow a thorough review of the Council's finances ensuring it plans are robust and sustainable over the coming years.

### **Covid-19 and the financial impact on 2019/20**

The Covid-19 pandemic will have a major impact on local authority finances for years to come. Its impact though on the revenue account was only minor during the 2019/20 financial year given the national lockdown started on 20<sup>th</sup> March. At the 31<sup>st</sup> March, the Council had spent £0.9m on its response to the emergency. The Government allocated its first tranche of special funding for this on 27<sup>th</sup> March with the Council receiving £5.2m. The balance of £4.3m has been carried forward through earmarked reserves to the next financial year where it has already been used in the early part of the Council's local response.

A further initiative that was launched immediately by Government in late March related to the grants to small businesses and the retail, hospitality and leisure sector. This was essential financial support to help these businesses to cope in the early stages of Covid-19. Middlesbrough was one of the first councils in the country to make a payment under this scheme on 20<sup>th</sup> March. By 31<sup>st</sup> March £3.9m had been already allocated to these businesses in the form of grant support. As the schemes are central government prescribed and the Authority is only acting in its role as a distributor of this funding then this income and expenditure is not included within the Council's accounts but the effective distribution of this funding to the local business community will be a lifeline in many cases.

## Capital

The table below summarises the capital outturn position for 2019/20 for each directorate. Total capital expenditure of £68.177 million was achieved against a revised budget of £71.831 million.

Department / Directorate	Revised Budget £'000	Full Year Outturn £'000	Over/ (under) spend £'000
Growth & Place	60,524	59,124	(1,400)
Public Health and Public Protection	275	275	0
Children's Services	4,931	3,376	(1,555)
Adult Social Care and Health Integration	3,688	3,370	(318)
Finance, Governance and Support	2,413	2,032	(381)
<b>Total</b>	<b>71.831</b>	<b>68.177</b>	<b>(3.654)</b>

Following a review of schemes, the Council approved a revised capital budget for 2019/20 of £71,831,000 as part of its medium-term investment strategy. The Council spent £68,177,000 (95%) of this revised budget at the year-end, with the underspend due mainly to delays on major schemes resulting from procurement or acquisition issues and the COVID-19 pandemic. These under budget positions were offset by bringing forward some funding for the purchase of vehicles and essential property maintenance.

## Balance Sheet

The Balance Sheet shows the value of assets and liabilities of the Council and sets out the revenue and capital reserves available for future investment. It also allows for comparison with the previous financial year-end and can be used to make judgements around the organisation's financial position

A summary of the Balance Sheet at the 31<sup>st</sup> March 2020 is set out below:

31 March 2019 (£000)		31 March 2020 (£000)
433,636	Long Term Assets	456,813
60,711	, Current Assets	98,180
(50,694)	Current Liabilities	(100,788)
(351,481)	Long Term Liabilities	(469,335)
<b>92,172</b>	<b>Net Assets</b>	<b>(15,310)</b>
(46,666)	Usable Reserves	(41,934)
(45,506)	Unusable Reserves	57,064
<b>(92,172)</b>	<b>Total Reserves</b>	<b>15,130</b>

The key headline messages to note in relation to the Balance Sheet at 31<sup>st</sup> March 2020 are as follows:

- Long-term assets continue to increase due to the Council's current ambitions on its investment strategy.
- Current assets are higher than last financial year due to increased holdings of cash at the year-end due to favourable interest rates ahead of some large scale capital investments and extra liquidity required for Covid-19 purposes.
- Current liabilities have increased due to higher short-term borrowing because of the 1% increase in public works loan board rates making longer term borrowing less attractive, more value in short periods and borrowing within the local authority market and the additional liquidity required as part of the initial response to Covid-19.
- Long-term liabilities have increased markedly due to the triennial valuation of the pension fund and the incorporation of a number of recent landmark legal cases into pensions entitlement and higher pension liabilities as a result. Also within the increase are the 35-year lease liabilities on the two Centre Square buildings.
- Usable reserves have decreased as a result of the revenue budget overspend offset by some grant funding that has been carried forward in advance of need.



- Unusable reserves reflect the technical accounting adjustments required to comply with proper accounting practice. Most of the losses are unrealised in nature and do not have an immediate impact on the Council's revenue budget or medium term financial plan.

The Council's balance sheet now is in a negative net worth position (i.e. the liabilities are greater than the assets held by the Council by £15m following a £107m loss on the Income and Expenditure statement this year. Although in the private sector this would usually be a position of some concern it is not that unusual in the local authority sector.

The deficit on the pension liabilities for current and former Middlesbrough employees continues to grow and is now at £279m in total. An increase of £80m during 2019/20. Although the loss will not crystallise at any one point in time but will be made up of benefits over the next 30-40 years, it erodes the financial position of the balance sheet in line with IAS19 principles on retirement benefits. In addition, pensions assets are currently undervalued with interest rates at historic lows and these will be expected to recover to more neutral levels in the long term.

There are also some large downward revaluations on some of the recent capital investment schemes undertaken by the Council, including the two Centre Square finance leases and Teesside Advanced Manufacturing Park. These assets are held at fair value (determined by future lease arrangements and tenancies that are only just being established) rather than the cost of building or leasing. The benefits are from a more regeneration and community benefit rather than from a financial perspective. Again, as with the pensions deficit the asset values should recover over-time as the relationships with tenants mature and there is greater understanding of rental income levels.

It is also worth reiterating that assets and liabilities subject to specialist valuation and professional expert techniques are less reliable in the current year than in the past, due to the inherent level of uncertainty created by Covid-19. Where professional judgement has been involved, regular discussions have been held with valuers about the issues involved and prudent conclusions have been made by the Council when considering these results. The balance sheet values are reasonably depressed as a result but should recover in the future.

## 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, which 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 2019/20.

**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.

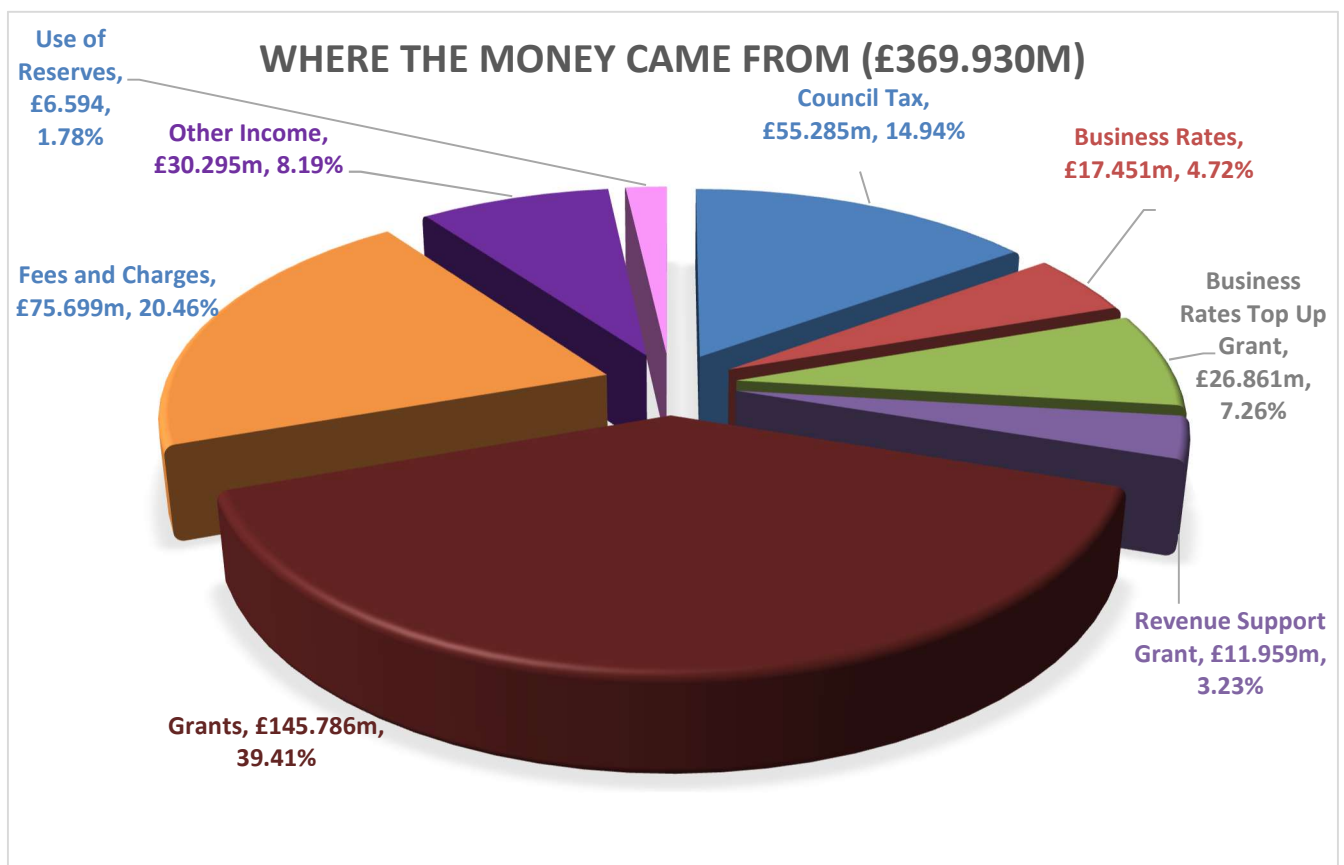
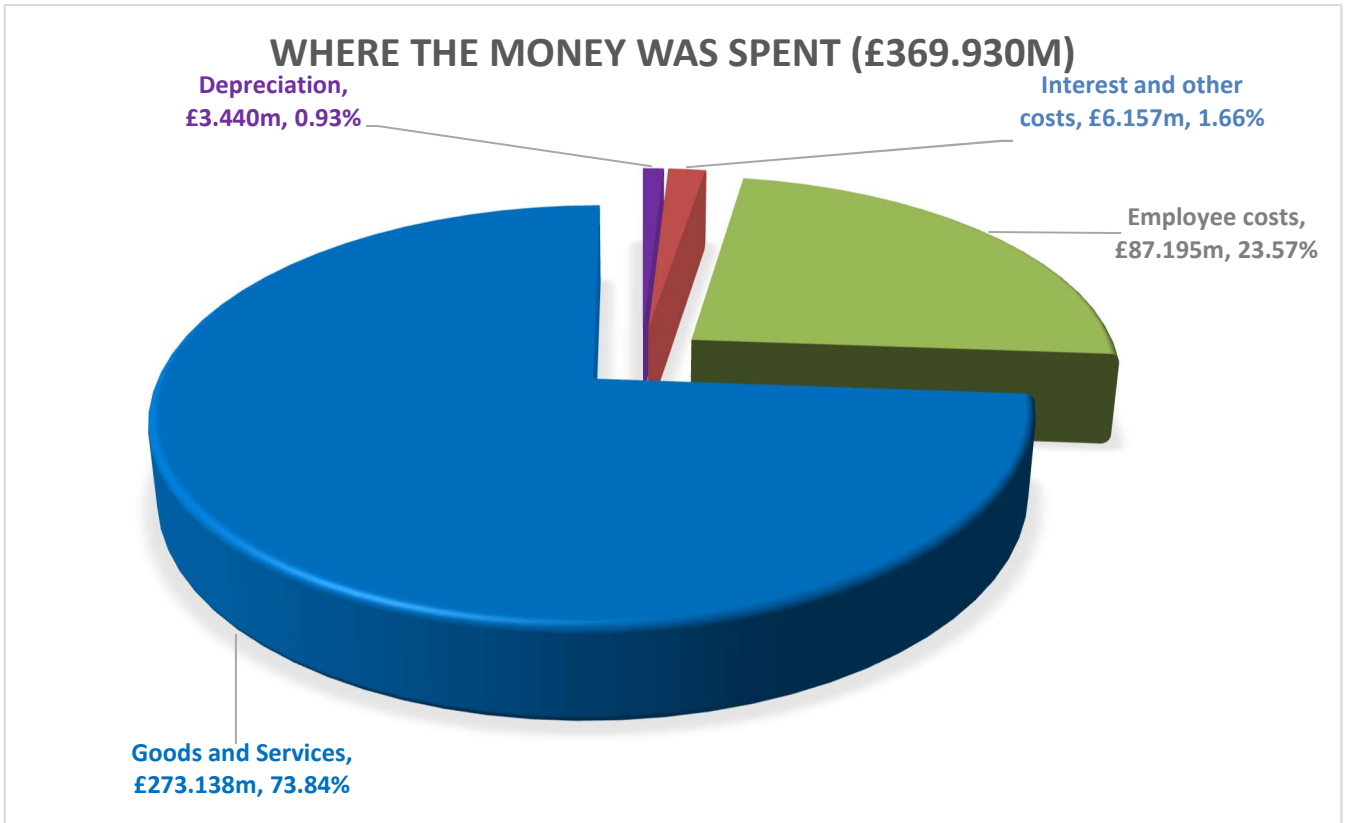
**Independent Auditor's Report to the Council** - the external auditor, Ernst & Young LLP have prepared this report which is included after the accounts have been audited.

**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 2019/20 and has been published with the audited accounts.

The **Core Financial Statements** comprise:

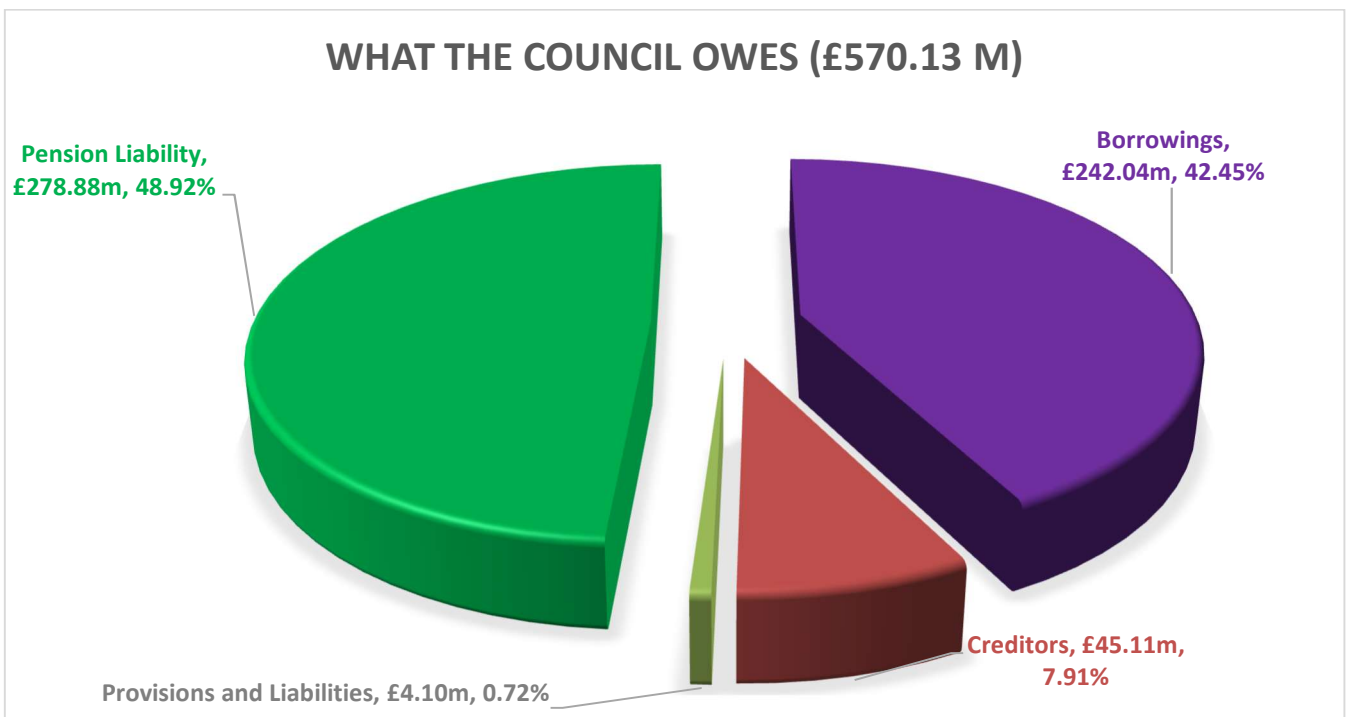
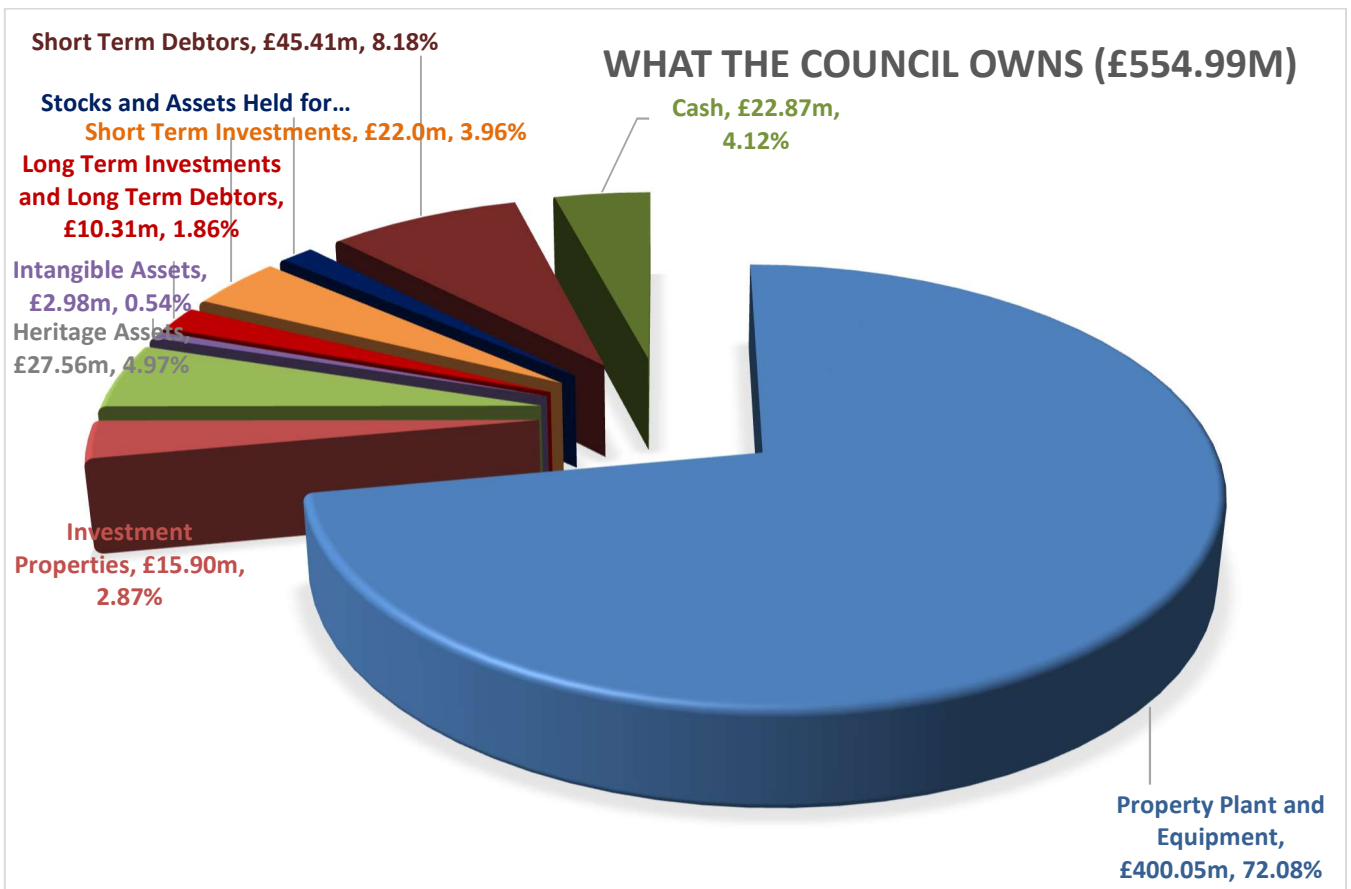
- The **Comprehensive Income and Expenditure Statement** – shows the income and expenditure of the Council in line with statutory regulations and CIPFA Accounting Code of Practice requirements.
- The charts below and overleaf illustrate where the money has come from and how it has been spent.

- The totals in the financial statement are higher than those set out below (expenditure by £77m and income by £31m) 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.



- 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.

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



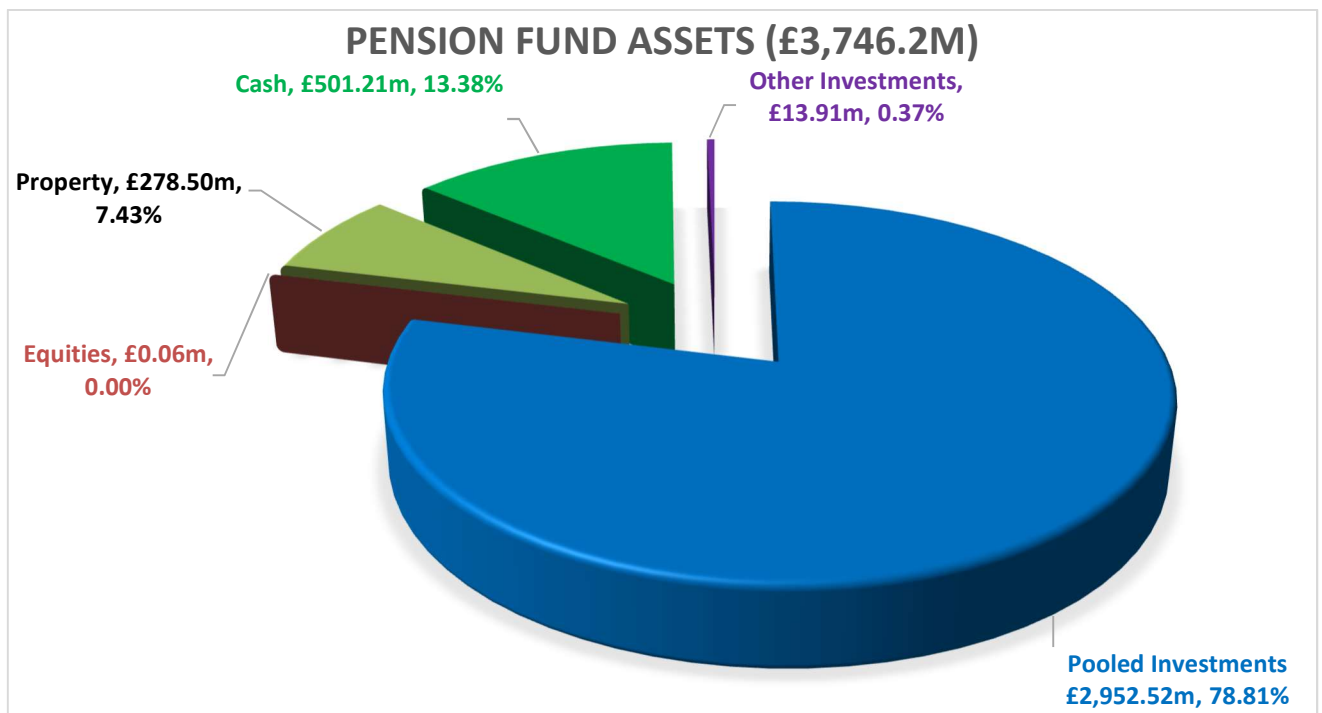
- The **Movement in Reserves Statement** - this statement shows the movement in the year on the different reserves held by the Council, split into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves (arising mainly as a result of technical 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, and 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 2019/20, assets, and liabilities as at 31 March 2020. The fund's total value had reduced quite significantly by around £0.5bn at the Balance Sheet date due to Covid-19 and the uncertainty in global financial markets at that time.

The following chart summarises the assets of the Fund at 31<sup>st</sup> March 2020:



In a similar vein to the Council's balance sheet, investment values quoted above are less reliable than normal due to Covid-19 and contain a degree of inherent uncertainty. Professional valuations have been made and these have been discussed further regarding the impact of the virus when finalising the accounts. The reduction in the value of the fund quoted above had mostly recovered at the time of publishing the accounts.

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 (Head of Financial Planning & 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 Head of Financial Planning & Support 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 Head of Financial Planning & Support has:

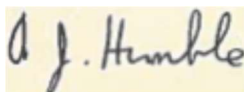
- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the local authority Code.

The Head of Financial Planning & Support 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.

### Confirmation of the Statement of Accounts

I certify that the statement of accounts present a true and fair view of the financial position of the Authority at 31 March 2020 and its income and expenditure for that year.



**Andrew Humble**  
**Head of Financial Planning & Support and Interim S151 Officer**  
**Finance Directorate**

**16 July 2020**

## 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 Chief Finance Officer of the Council (Head of Financial Planning & Support); 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 Chief Finance Officer's Responsibilities

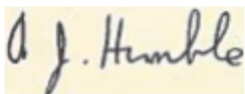
The Head of Financial Planning & Support is responsible for the preparation of the Fund's Statement of Accounts in accordance with proper practices set out in the Accounts and Audit Regulations (England) 2015.

In preparing the Statement of Accounts, the Head of Financial Planning & 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 2020 and of its income and expenditure for that year.



**Andrew Humble**

**Head of Financial Planning & Support and Interim S151 Officer  
Finance Directorate**

**16 July 2020**

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

The Auditors report will follow once the Audit has been concluded towards the end of September.

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

The Auditors report will follow once the Audit has been concluded towards the end of September.



## 2. 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 are available to fund expenditure or to reduce taxation, and other unusable reserves, held for accounting purposes.

2019/20	General Fund Balance	Earmarked Revenue Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 1st April 2019</b>	<b>(11,904)</b>	<b>(21,525)</b>	<b>(77)</b>	<b>(13,160)</b>	<b>(46,666)</b>	<b>(45,506)</b>	<b>(92,172)</b>
<u>Movement in reserves during 2019/20</u>							
Total Comprehensive Income and Expenditure	52,639		0	0	<b>52,639</b>	54,663	<b>107,302</b>
Adjustments between accounting basis & funding basis under regulation (note 6)	(47,587)		(68)	(252)	<b>(47,907)</b>	47,907	<b>0</b>
Transfers to/(from) other reserves	(2,548)	2,214	0	334	<b>0</b>	0	<b>0</b>
<b>Net Decrease / (increase) in year</b>	<b>2,504</b>	<b>2,214</b>	<b>(68)</b>	<b>82</b>	<b>4,732</b>	<b>102,570</b>	<b>107,302</b>
<b>Balance at 31st March 2020 carried forward</b>	<b>(9,400)</b>	<b>(19,311)</b>	<b>(145)</b>	<b>(13,078)</b>	<b>(41,934)</b>	<b>57,064</b>	<b>15,130</b>

2018/19	General Fund Balance	Earmarked Revenue Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£00	£000	£000	£000	£000	£000
<b>Balance at 1st April 2018</b>	<b>(15,154)</b>	<b>(26,321)</b>	<b>(2)</b>	<b>(7,941)</b>	<b>(49,416)</b>	<b>(105,009)</b>	<b>(154,425)</b>
<b>Movement in reserves during 2018/19</b>							
Total Comprehensive Income and Expenditure	96,235		0	0	<b>96,235</b>	(33,982)	<b>62,253</b>
Adjustments between accounting basis & funding basis under regulation (note 6)	(88,191)		(75)	(5,219)	<b>(93,485)</b>	93,485	<b>0</b>
Transfers to/(from) other reserves	(4,795)	4,795	0	0	<b>0</b>	0	<b>0</b>
<b>Net Decrease / (increase) in year</b>	<b>3,249</b>	<b>4,795</b>	<b>(75)</b>	<b>(5,219)</b>	<b>2,750</b>	<b>59,503</b>	<b>62,253</b>
<b>Balance at 31st March 2019 carried forward</b>	<b>(11,904)</b>	<b>(21,525)</b>	<b>(77)</b>	<b>(13,160)</b>	<b>(46,666)</b>	<b>(45,506)</b>	<b>(92,172)</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 2020							
2018/19					2019/20		
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
22,611	(6,395)	16,216	Regeneration		38,936	(15,840)	23,096
16,876	(20,081)	(3,205)	Public Health and Public Protection		15,450	(19,606)	(4,156)
69,472	(67,480)	1,992	Education		64,181	(61,448)	2,733
15,744	(459)	15,285	Children's Care		18,149	(841)	17,308
23,541	(642)	22,899	Business Performance & Change		26,853	(1,075)	25,778
80,775	(42,059)	38,716	Adult Social Care and Health Integration		85,217	(43,193)	42,024
49,584	(4,137)	45,447	Environment and Commercial Services		48,306	(4,682)	43,624
104,647	(79,645)	25,002	Finance, Governance & Support		80,561	(60,876)	19,685
7,795	(5,614)	2,181	Legal & Governance Services		9,272	(5,666)	3,606
9,118	(5,291)	3,827	Prevention and Partnerships		9,878	(5,736)	4,142
198	(3,185)	(2,987)	Central Costs		1,095	(8,776)	(7,682)
<b>400,361</b>	<b>(234,988)</b>	<b>165,373</b>	<b>Total Cost of Service</b>		<b>397,897</b>	<b>(227,739)</b>	<b>170,158</b>
62,662	(4,467)	58,195	Other Operating Income and Expenditure	8	2,192	(1,232)	960
39,598	(30,949)	8,649	Financing & Investment Activities	9	46,303	(30,097)	16,206
0	(135,982)	(135,982)	Taxation and Non Specific Grant Income	10	0	(134,685)	(134,685)
<b>502,621</b>	<b>(406,386)</b>	<b>96,235</b>	<b>(Surplus) or Deficit on Provision of Services</b>		<b>446,392</b>	<b>(393,753)</b>	<b>52,639</b>
			<i>Items that will not be re-classified to the Surplus or Deficit on the Provision of Service</i>				
		(6,195)	(Surplus) on revaluation of Property Plant and Equipment	22/ 23			(2,740)
		(23,562)	Actuarial (Gains) on Pension Fund charged to the Pensions Reserve	38			61,975
		(4,225)	Depreciation written out to the Revaluation reserve	22			(4,572)
		<b>(33,982)</b>	<b>Other Comprehensive Income and Expenditure</b>				<b>54,663</b>
		<b>62,253</b>	<b>Total Comprehensive Income and Expenditure</b>				<b>107,302</b>

Note: In November 2019 there was a management re-structure within the Council which changed the number of directorates and the senior management team. The reporting level above follows this structure but given it is different to that reported in last year's accounts, the 2018/19 comparator figures have been restated as a result.

## 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 2019		Note	31 March 2020
£000			£000
388,464	Property, Plant & Equipment	22/23	400,052
27,382	Heritage Assets	24	27,563
2,610	Investment Properties	25	15,904
3,987	Intangible Assets	26	2,982
309	Long Term Investments	28	309
10,884	Long Term Debtors	31	10,003
<b>433,636</b>	<b>Total Long Term Assets</b>		<b>456,813</b>
10,000	Short Term Investments	28	22,000
6,700	Short Term Assets Held for Sale	27	5,476
2,316	Inventories	32	2,425
38,867	Short Term Debtors	31	45,411
2,828	Cash and Cash Equivalents	33	22,868
<b>60,711</b>	<b>Total Current Assets</b>		<b>98,180</b>
(13,203)	Short Term Borrowing	28	(54,157)
(35,933)	Short Term Creditors	34	(45,105)
(1,558)	Short Term Provisions	35	(1,526)
<b>(50,694)</b>	<b>Total Current Liabilities</b>		<b>(100,788)</b>
<b>10,017</b>	<b>Net Current Assets / (Liabilities)</b>		<b>(2,608)</b>
(1,029)	Long Term Provisions	35	(981)
(149,344)	Long Term Borrowing	28	(187,884)
(1,733)	Other Long Term Liabilities	28	(1,589)
(199,375)	Pension Liability	38	(278,881)
<b>(351,481)</b>	<b>Total Long Term Liabilities</b>		<b>(469,335)</b>
<b>92,172</b>	<b>Net Assets</b>		<b>(15,130)</b>
(46,666)	Usable Reserves	36	(41,934)
(45,506)	Unusable Reserves	37	57,064
<b>(92,172)</b>	<b>Total Reserves</b>		<b>15,130</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 2019 £000		Note	Year to 31 March 2020 £000
(96,235)	<b>(Deficit) on provision of services transferred to the General Fund</b>		<b>(52,639)</b>
	<b>Adjustment for items not affecting cash flow</b>		
16,546	Depreciation of Property Plant and Equipment (PPE)	22	15,163
2,048	Amortisation of Intangible Assets	26	2,150
5,529	Impairments to PPE	22	17,308
101	Impairments to Assets Held for Sale	27	0
(63)	Fair Value gain on Investment Properties	25	8,043
(900)	Donated PPE and Heritage Assets	22,24	(244)
66,241	Net Book Value on Disposal of Non-current Assets	22,24,26	2,051
10,327	Difference between Current Service Cost and Contributions made to the Pension Scheme	38	12,437
14,428	Impact of Changes to Actuarial Assumptions applied to the Pension Scheme Deficit	38	5,094
543	Movement in Provisions	35	(81)
<b>18,565</b>	<b>Surplus on provision of services after non cash adjustments</b>		<b>9,282</b>
(4,467)	Adjustments for items that are Financing or Investing Activities		1,232
	<b>Other operating cash flows</b>		
(323)	Cash absorbed by the reduction in Creditors	34	9,651
(3,754)	Cash absorbed by the increase in Debtors	31	(5,661)
(196)	Cash absorbed by the increase in Inventories	32	(109)
<b>9,825</b>	<b>Net cash flow from Operating Activities</b>		<b>14,395</b>
(19,495)	Investing Activities	45	(73,705)
3,387	Financing Activities	45	79,351
<b>(6,283)</b>	<b>Net increase/(decrease) in Cash and Cash Equivalents</b>		<b>20,041</b>
9,111	Cash and Cash Equivalents at the start of the period	33	2,828
<b>2,828</b>	<b>Cash and Cash Equivalents at the end of the period</b>	<b>33</b>	<b>22,868</b>

The cash flow for Operating Activities includes the following:-

(451)	Interest received		(632)
5,255	Interest paid		6,127

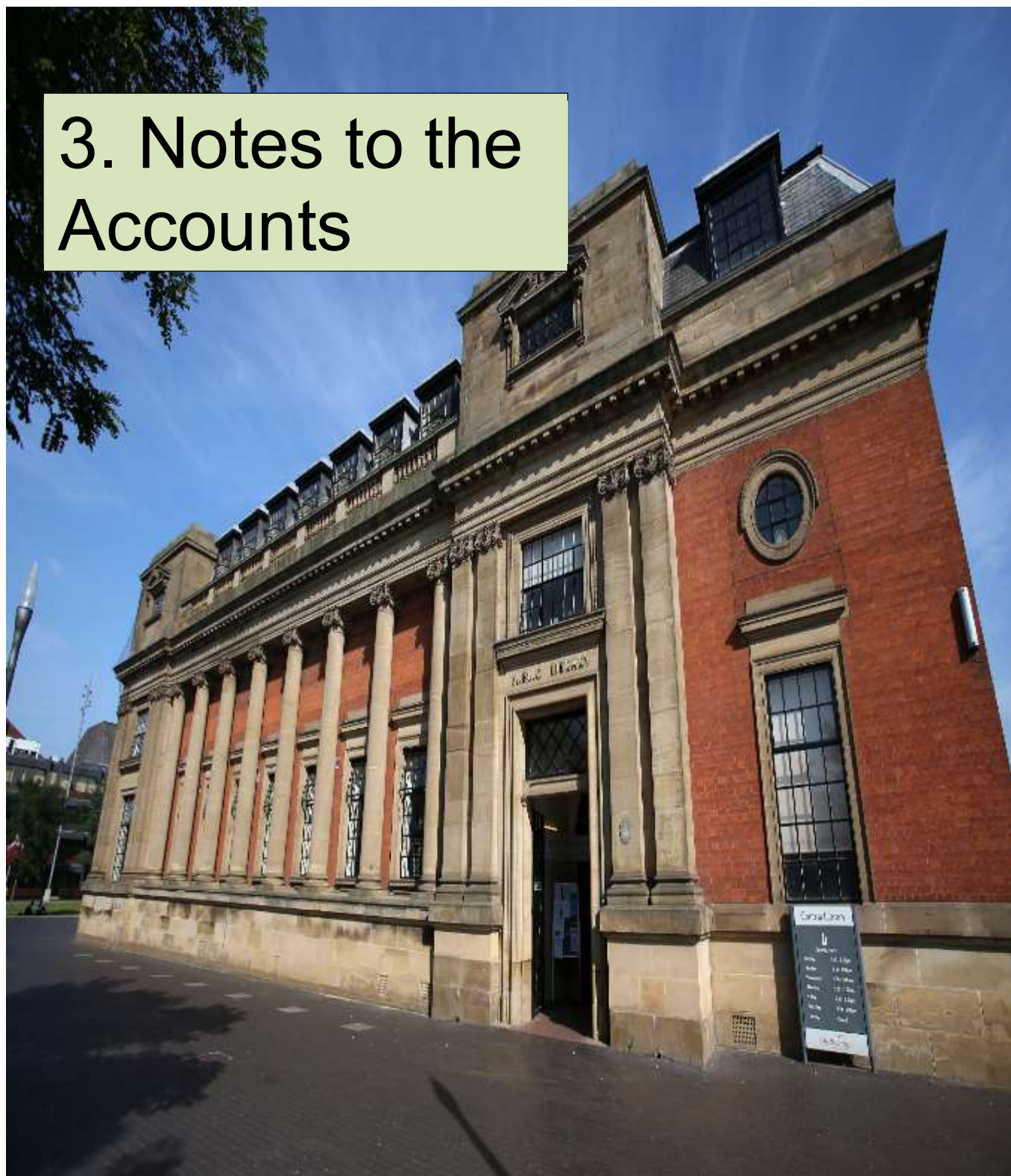
## Expenditure and Funding Statement

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 and Funding Analysis						
2018/19				2019/20		
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
4,620	11,596	16,216	Regeneration	4,501	18,595	23,096
(611)	(2,594)	(3,205)	Public Health and Public Protection	(1,373)	(2,783)	(4,156)
1,104	889	1,993	Education	116	2,617	2,733
12,773	2,511	15,284	Children's Care	15,277	2,031	17,308
22,412	486	22,898	Business Performance & Change	25,189	589	25,778
38,312	405	38,717	Adult Social Care & Health Integration	37,833	4,191	42,024
21,049	24,400	45,449	Environment & Commercial Services	21,037	22,587	43,624
7,326	17,676	25,002	Finance, Governance & Support	11,606	11,403	23,009
1,687	493	2,180	Legal & Governance Services	2,399	1,207	3,606
2,306	1,520	3,826	Prevention and Partnerships	2,035	2,107	4,142
746	(3,733)	(2,987)	Central Costs	(98)	(10,908)	(11,006)
<b>111,724</b>	<b>53,649</b>	<b>165,373</b>	<b>Net Cost of Service</b>	<b>118,521</b>	<b>51,637</b>	<b>170,158</b>
(111,285)	42,147	(69,138)	Other Income and Expenditure	(111,927)	(5,592)	(117,519)
<b>439</b>	<b>95,796</b>	<b>96,235</b>	<b>Surplus or Deficit on Provision of Services</b>	<b>6,594</b>	<b>46,045</b>	<b>52,639</b>
		<b>15,152</b>	<b>Opening Uncommitted General Fund Balance</b>			<b>11,904</b>
		(439)	Less/Plus Surplus or (Deficit) on General Fund Balance in year			(6,594)
		(2,811)	Contribution/(use) in year			4,090
		<b>11,904</b>	<b>Closing Uncommitted General Fund Balance</b>			<b>9,400</b>

*Note: Although the Expenditure and Funding Statement is not a Core Financial Statement as prescribed in the accounting code of practice by CIPFA, it has been included under this section rather than as a note to the accounts. This is in order to highlight the linkages between this information above and the Comprehensive Income and Expenditure Statement when trying to understand the Council's budget/financial position.*

# 3. Notes to the Accounts



Central Library



## Notes to the Accounts

Note	Description	Page
	<b>Notes to the Accounts</b>	
1	Accounting Policies	34
2	Accounting Standards Issued but not yet adopted	39
3	Assumptions made about the future and other major sources of estimation uncertainty	39
4	Critical Judgements in applying Accounting Policies	43
5	Events after the Balance Sheet Date	45
	<b>Notes Supporting the Movement in Reserves Statement</b>	
6	Adjustments Between Accounting Basis and Funding Basis under Regulations	46
7	Earmarked Reserves	48
	<b>Notes Supporting the Comprehensive Income and Expenditure Statement</b>	
8	Other Operating Income and Expenditure	50
9	Financing and Investment Activities	50
10	Taxation and Non-Specific Grant Income	51
11	Grant Income	51
12	Dedicated Schools Grant	53
13	Officers' Remuneration	54
14	Members' Allowances and Expenses	57
15	Trading Operations	57
16	Audit Fees	57
17	Agency Services	57
18	Related Parties	58
19	Pooled Budgets	59
	<b>Notes Supporting the Balance Sheet</b>	
20	Capital Expenditure and Capital Financing	61
21	Capital Commitments	62
22	Property, Plant and Equipment	62
23	Revaluations and Impairments of Property, Plant and Equipment	66
24	Heritage Assets	67
25	Investment Properties	68
26	Intangible Assets	69
27	Assets Held for Sale	69
28	Financial Instruments: Balances	70
29	Financial Instruments: Fair Value and Risks	72
30	Financial Instruments: Income and Expenditure	75
31	Debtors (Short and Long Term)	75
32	Inventories	76
33	Cash and Cash Equivalents	76
34	Short Term Creditors	76
35	Provisions	76
36	Usable Reserves	77
37	Unusable Reserves	77
38	Pension Schemes Accounted for as Defined Benefit Scheme	80

<b>39</b>	Pension Scheme Accounted for as a Defined Contribution Scheme	84
<b>40</b>	Leases - Council as Lessor	84
<b>41</b>	Leases - Council as Lessee	85
<b>42</b>	Contingent Liabilities	85
<b>43</b>	Contingent Assets	86
<b>44</b>	Trust Funds	86
	<b>Notes Supporting the Cash Flow Statement</b>	
<b>45</b>	Cash Flow Statement - Investing and Financing Activities	87
	<b>Notes Supporting the Expenditure and Funding Analysis</b>	
<b>46</b>	Adjustments between Funding and Accounting Basis	88
<b>47</b>	Expenditure and Funding Analysed by Nature	89

# Notes to the Accounts

## Note 1 Accounting Policies

### Basis of Accounting

The Statement of Accounts summarises the Council's financial transactions for the 2019/20 financial year and its position at the 31 March 2020.

The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 – updated for the A & A coronavirus amendment regulations 2020 - in accordance with proper accounting practices.

These practices under Section 21 of the Local Government Act 2003 Act primarily comprise the Code of Practice on Local Council Accounting in the United Kingdom 2019/20, 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 necessarily 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 amounts.

### Accounting Developments and Changes in the Year

#### Changes to the Core Statements

In 2019/20 the following standards have been adopted into the Local Authority Code of Accounting Practice:

- Minor amendments to IAS 40 *Investment Property: Transfers of Investment Property*.
- IFRS 12 *Disclosure of Interests in Other Entities: Clarification of the Scope of the Accounting Standard*.
- IAS 28 *Investments in Associates and Joint Ventures: Measuring an Associate or Joint Venture at Fair Value*.
- Amendments to IFRS 9 *Financial Instruments: Prepayment Features with Negative Compensation*

These revisions have only minimal impact on local authorities and are not expected to cause any change in current accounting practice for the Council for 2019/20.

Due to an internal management restructure at the start of November 2019, the Directorate structure of the Council, which influences the operating segments in the Comprehensive Income and Expenditure Statement, is different to the previous financial year. The cost of service comparator figures have been restated for 2018/19 to reflect the new structure.

All of the other core financial statements and notes to the accounts remain the same as in the previous year

## **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, significant changes to activities undertaken, or where the Covid-19 pandemic has meant a re-assessment of these policies. 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 be transferred 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 Council 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 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 only be used to fund new capital investment or be set aside to reduce the Council'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 Council 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 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 Council 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 Council 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 carried in the Balance Sheet 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 held 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 are a constituent part 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. Impairment relates to the reduction on a permanent basis of a non-current asset due to a specific event such as fire, flooding, accidental damage and an act of god and associated perils. Impairment does not relate to general decreases in property value or the use of an asset in a specific way where its value be less than its historic cost and these will be informed via revaluations.

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 charged to 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 to offset this loss. 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 other operating expenditure 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 part 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 for on all assets identified as Property, Plant and Equipment and Amortisation is charges on Intangible Assets by the systematic allocation of their balance sheet 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 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 1-60 Years
- Plant and Equipment 5-10 Years
- Vehicles 5-10 Years
- Surplus Buildings 30-60 Years
- Intangible Assets 3-10 Years

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation and the amount that would have been charged otherwise. This is based on the historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

### Post-Employment Benefits (Pensions)

Employees of the Council 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.

The arrangements for the Teachers' Pension Scheme are such that the liabilities for the benefits can not be identified specifically to the Council so the scheme is accounted for as a defined contribution scheme. The assets and liabilities of the scheme are excluded from the Council's Balance Sheet and only the value of actual contributions made are 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

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of 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 no recognition for low-value and short-term leases). CIPFA/LASAAC have however deferred implementation of IFRS16 for local government to 1 April 2021 due to the impact of Covid-19.
- IAS 19 Employee Benefits will require the remeasurement of the net pension asset/liability following plan amendments, curtailments or settlements to be used to determine current service cost and net interest for the remainder of the year after the change to the plan. The updating of these assumptions only applies to changes from 1st April 2020 and, since this could result in positive, negative or no movement in the net pension liability, no prediction can be made of the possible accounting impact.

## 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 because 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 chargeable 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 Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amount payable but unpaid at year end.

## **Heritage Assets**

Heritage Assets are not used for the delivery of services but instead are 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. Revaluations, in accordance with the local authority accounting code of practice commenced during the 2019/20 financial year.

## **Investment Properties**

Investment properties are those assets held by the Council solely to earn rental income and/or for capital appreciation. These are not depreciated within the accounts. Instead, they are recorded in the balance sheet initially at cost and then subsequently revalued each year at fair value. This is based on the amount at which the asset could be exchanged between knowledgeable parties in an arm's length transaction.

Changes in valuation are charged or credited to financing and investment activities in the Comprehensive Income and Expenditure Statement.

## **Financial Instruments**

Financial Instruments are any contract that give rise to a financial asset in one organisation's accounts and a financial liability in another's. These transactions can cover 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 in 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. These are usually as loans at amortised cost rather than fair value.

Interest payable on these financial instruments is determined as the difference between the initial fair value and the total of the cash amounts repayable over the life of the instrument. These are allocated to the Comprehensive Income and Expenditure Statement in equal instalments over the life of the financial instrument concerned.

## **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 the Comprehensive Income and Expenditure Statement in equal instalments over the life of the assets. For short-term assets, this is charged each month and for longer term by year.

## **Leases**

IAS 17 – the current accounting standard in place for leasing identifies two classes of lease. Finance leases are contracts with the rights to use an asset, where substantially all of the risks and rewards of ownership pass to the lessee. All other leases under the standard 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 being made (e.g. there may be a rent-free period at the commencement of the lease).

#### **Finance Leases**

Where the Council has the balance of risks and rewards in its possession, it will recognise a lease of this nature (for any property or equipment) as an asset in the Council's balance sheet at fair value, with a corresponding long-term liability covering the associated rental payments. 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 numerous operating (rental) leases over certain properties and equipment in its ownership where the balance of risks and rewards of the contract remain under its discretion. These assets are retained in the Balance Sheet following normal principles relating to property, plant and equipment. 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.

## **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.

## **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 Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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 (see Section 5 –Group Accounts). 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 of Practice. 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)	0	0	0	0
Foundation	5	0	0	5
<b>Maintained</b>	<b>9</b>	<b>0</b>	<b>3</b>	<b>12</b>
Academies (not under the control of LA)	32	7	2	41
<b>Total</b>	<b>41</b>	<b>7</b>	<b>5</b>	<b>53</b>

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

## Valuation of Operational Property

Asset valuations are based on market prices and are periodically reviewed to ensure that the Council does not materially misstate its non-current assets. The Council's external valuers provided valuations as at 31 March 2020 for approximately 20% of its operational portfolio in line with the CIPFA Code of Practice. The remaining balance of operational properties were also reviewed at a high level to ensure values reflect current values.

The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement.

Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuations. At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid.

The estimated remaining useful life of all operational assets is reviewed annually based on the advice from the Council external valuers.

## Investment Properties

Investment Properties are held in the Balance Sheet at fair value which is based on an assessment of market values currently available. Clearly the fair value can only be an estimate until a property is marketed for sale. However, 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.

Similarly, to operational property any valuations for investment properties are reported on the basis of 'material valuation uncertainty' with less certainty and a higher degree of caution being attached to these valuations. As the impact of Covid-19 cannot be predicted accurately the values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the markets recover to a normal state.

## 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 Balance Sheet of an inaccurate estimate in any one year is significantly reduced.

## 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.

## 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 2019 was £5.281 million (Middlesbrough Council share £2.587 million). The provision was decreased by £0.321 million in 2019/20 leaving a total fund closing provision balance at 31st March 2020 of £4.960 million. (Middlesbrough Council share £2.430million). The profile of these appeals is not particularly uniform given that there are still a range of claims outstanding from both the 2010 and 2017 valuation lists.

## Note 5 Events after the Balance Sheet Date

There are no events at the authorised for issue date (16<sup>th</sup> July 2020) that affect any of the values in either the Financial Statements for 2019/20 or in the Notes to the Accounts. However, it should be noted that the Covid-19 global pandemic does create significant uncertainty to both the Council's financial position and to the valuation of the assets and liabilities in the core financial statements.

For the valuation of the main assets and liabilities relating to the Council, principally property, plant & equipment and the retirement benefits assets and liabilities, the data used has been the most up to date possible and the valuations have been made by recognised industry professionals. It has been specifically requested that these valuations take into account the effect of Covid-19 where possible. In most cases the impact of the virus on the financial position of the organisation is not known with much certainty. It will unwind over the course of the coming financial years and as the scale of this emergency event becomes apparent on the UK economy.

## 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 required to Income and Expenditure recognised by the Council within the year so they match 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.

2019/20	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)	(15,163)	0	0	(15,163)
Revaluation Losses on Property, Plant and Equipment (Note 23,22)	(17,308)	0	0	(17,308)
Revaluation of Investment Properties and Assets for Sale (Note 25,27)	(8,043)	0	0	(8,043)
Amortisation of Intangible Assets (Note 26)	(2,150)	0	0	(2,150)
Transfer between Capital grants Unapplied and General Fund	0	0	0	0
Total Capital Grants (Note 10)	16,685	0	(567)	16,118
Capital Grants and Contributions Unapplied credited to the Comprehensive Income and Expenditure	0	0	0	0
Donated Assets (Note 22,24)	244	0	0	244
Revenue Expenditure Funded from Capital Under Statute (REFCUS) – Expenditure	(8,183)	0	0	(8,183)
Revenue Expenditure Funded from Capital Under Statute (REFCUS) – Grant Receivable	1,427	0	315	1,742
Non-current assets written off on disposal or sale (Note 22,26)	(2,052)	0	0	(2,052)
<b>Total with the Comprehensive Income and Expenditure Statement</b>	<b>(34,544)</b>	<b>0</b>	<b>(252)</b>	<b>(34,796)</b>
<b>Amounts arising elsewhere</b>				
Statutory provision for the financing of capital investment (Note 20)	3,440	0	0	3,440
Capital Receipts Reserve used to finance new capital spend (Note 20)	0	1,165	0	1,165
Capital expenditure charged against the General Fund (Note 20)	7	0	0	7
<b>Total Amounts arising elsewhere</b>	<b>3,447</b>	<b>1,165</b>	<b>0</b>	<b>4,612</b>
<b>Total Amounts involving the Capital Adjustment Account</b>	<b>(31,097)</b>	<b>1,165</b>	<b>(252)</b>	<b>(30,184)</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 38)	(30,168)	0	0	(30,168)
Employer's pension contribution payable in year (Note 38)	12,637	0	0	12,637

Difference in Collection Fund income credited to the Comprehensive Income and Expenditure Statement and that under statutory requirements (Note 37)	(377)	0	0	(377)
<b>Amounts with the Compensated Absences Adjustment Account</b>				
Reversal of Accrual made at previous year end (Note 37)	1081	0	0	1081
Creation of accrual for current year end (Note 37)	(896)	0	0	(896)
<b>Amounts between Usable Reserves</b>				
Cash proceeds on disposal of Non-Current Assets	1,232	(1,233)	0	0
<b>Total Adjustments for the year ended 31 March 2020</b>	<b>(47,587)</b>	<b>(68)</b>	<b>(252)</b>	<b>(47,907)</b>

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 23,22)	(4,446)	0	0	(4,446)
Revaluation of Investment Properties and Assets for Sale (Note 25,27)	63	0	0	63
Amortisation of Intangible Assets (Note 26)	(2,048)	0	0	(2,048)
Total Capital Grants (Note 11)	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 20)	3,004	0	0	3,004
Capital Receipts Reserve used to finance new capital spend (Note 20)	0	4,392	0	4,392
Capital expenditure charged against the General Fund (Note 20)	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>13,498</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 38)	(34,691)	0	0	(34,691)
Employer's pension contribution payable in year (Note 38)	12,152	0	0	12,152



Difference in Collection Fund income credited to the Comprehensive Income and Expenditure Statement and that under statutory requirements (Note 38)	1,543	0	0	<b>1,543</b>
<b>Amounts with the Compensated Absences Adjustment Account</b>				
Reversal of Accrual made at previous year end (Note 37)	1,562	0	0	<b>1,562</b>
Creation of accrual for current year end (Note 37)	(1,081)	0	0	<b>(1,081)</b>
<b>Amounts between Usable Reserves</b>				
Cash proceeds on disposal of Non-Current Assets	4,467	(4,467)	0	<b>0</b>
<b>Total Adjustments for the year ended 31 March 2019</b>	<b>(88,191)</b>	<b>(75)</b>	<b>(5,219)</b>	<b>(93,485)</b>

## Note 7 Earmarked Reserves

	Amounts Transferred			Balance at 31 March 2020 £000
	Balance at 1 April 2019	From General Fund	To General Fund	
	£000	£000	£000	
<b>Schools Balances</b>	<b>(2,890)</b>	<b>(3,336)</b>	<b>2,986</b>	<b>(3,241)</b>
<b>Development in future Provision of Schools</b>	<b>(96)</b>	<b>0</b>	<b>96</b>	<b>0</b>
<b>Significant Revenue Reserves</b>				
Invest to Save / Change Programme	(2,089)	(201)	1,875	<b>(415)</b>
Revenue Grants Unapplied	(4,101)	(10,738)	4,903	<b>(9,937)</b>
Insurance Fund	(962)	0	602	<b>(360)</b>
Schools Reserves	(476)	(217)	2,758	<b>2,065</b>
Capital Re-Financing Reserve	(175)	0	0	<b>(175)</b>
Public Health Reserve	(20)	0	20	<b>0</b>
Business Rates Reserve	(4,134)	0	2,463	<b>(1,671)</b>
Investment Fund Reserve	(5,629)	0	701	<b>(4,928)</b>
<b>Total Significant Reserves</b>	<b>(17,586)</b>	<b>(11,156)</b>	<b>13,322</b>	<b>(15,420)</b>
Other Revenue Reserves	(953)	(3,885)	4,187	<b>(651)</b>
<b>Total Earmarked Reserves</b>	<b>(21,525)</b>	<b>(18,377)</b>	<b>20,591</b>	<b>(19,311)</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 Council 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 increases in the cost of long-term 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. This 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 capital investment opportunities.

**Schools Reserves** – This comprises a number of reserves. The main reserve relates to 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. This also includes the Dedicated Schools High Needs block which has generally been a negative reserve in recent years.

## Notes Supporting the Comprehensive Income and Expenditure Statement

### Note 8 Other Operating Income and Expenditure

2018/19		2019/20
£000		£000
134	Town and Parish Council Precepts	140
(3,850)	Long term Lease for The Welding Institute	0
61,911	Losses on the disposal of non-current assets	820
<b>58,195</b>	<b>Total</b>	<b>960</b>

The large year on year change on this heading relates to six schools and £60m of schools assets which transferred to Academy status and as a result out of local authority ownership during 2018/19.

### Note 9 Financing and Investment Activities

2018/19		2019/20
£000		£000
5,255	Interest payable and similar charges	6,128
10,800	Trading Services Activities (Note 15)	9,275
(63)	Charges in relation to Investment Property and changes in their fair value (Note 25)	8,064
23,606	Pension Interest Cost (Note 38)	22,836
<b>39,598</b>	<b>Total Expenditure</b>	<b>46,303</b>
(18,552)	Expected return on Pensions Assets (Note 38)	(18,203)
(451)	Interest receivable and similar income	(632)
(11,946)	Trading Services Activity (Note 15)	(11,262)
<b>(30,949)</b>	<b>Total Income</b>	<b>(30,097)</b>
<b>8,649</b>	<b>Total</b>	<b>16,206</b>

The increase in cost on these activities relates to the downward revaluation following capitalisation of the finance leases for buildings 1 & 2 Centre Square. This reflects tenancy arrangements being in their infancy and some shorter lease and void assumptions in terms of the future income generation of this asset.

## Note 10 Taxation and Non Specific Grant Income

2018/19		2019/20
£000		£000
(52,530)	Council Tax Income	(55,483)
(17,722)	Business Rates Income	(17,246)
(47,712)	Non ring-fenced government grant (Note 11)	(45,027)
(900)	Value of Donated Property, Plant and Equipment Assets (Note 20)	(244)
(17,118)	Capital Grants and Contributions (Note 11)	(16,685)
<b>(135,982)</b>	<b>Total</b>	<b>(134,685)</b>

## Note 11 Grant Income

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

Revenue Grants Credited to Taxation and Non Specific Grant Income		
2018/19		2019/20
£000		£000
(16,534)	Revenue Support	(11,959)
(26,042)	Business Rates Top-up	(26,861)
(2,349)	New Homes Bonus	(1,972)
(2,787)	Business Rates Section 31	(4,055)
(0)	Enterprise Zone Funding	(180)
<b>(47,712)</b>	<b>Total (note 10)</b>	<b>(45,027)</b>
Revenue Grants Credited to Services		
Department for Education (DfE)		
(53,792)	Dedicated Schools Grant	(48,482)
(4,388)	Pupil Premium	(3,722)
(342)	Education Services	(114)
(2,019)	Education and Skills Funding Agency	(1,332)
(109)	Staying Put Agency	(0)
(845)	Universal Infant Free School Meals	(0)
(780)	High Needs Sixth Form Funding	(260)
(0)	Supporting & Strengthening Families	(575)
(0)	PE & Sport	(243)
(178)	Other DfE grants	(1,341)
Ministry of Housing, Communities and Local Government (MHCLG)		
(1,885)	Independent Living	(1,828)
(474)	Adult Social Care Grant	(1,295)
(6,023)	Improved Better Care Fund	(7,634)
(798)	Troubled Families	(1,005)
(758)	Winter Pressures	(568)
(941)	Migration Fund	(0)
0	COVID19	(5,200)
(1,188)	Other MHCLG grants	(2,495)
Home Office		
(805)	Youth Justice Good Practice Grant	(803)
(178)	Other Home Office	(166)

	<b>Department for Business, Energy and Industrial Strategy (BEIS)</b>	
(167)	BEIS grants	(0)
	<b>Department for Digital, Culture, Media and Sport (DCMS)</b>	
(642)	DCMS grants	(553)
	<b>Department for Work and Pensions (DWP)</b>	
(70,806)	Housing Benefit Subsidy	(56,969)
(1,118)	Housing Benefit Admin	(723)
(1,039)	Other Grants	(1,081)
	<b>Department of Health and Social Care (DHSC)</b>	
(16,787)	Public Health	(16,386)
(166)	Other DHSC grants	(166)
	<b>Department for Environment, Food and Rural Affairs (DeFRA)</b>	
(370)	DeFRA grants	(108)
	<b>Department for Transport (DfT)</b>	
(102)	DfT grants	(121)
	<b>Lottery Grants</b>	
(7)	Other Lottery Grants	(40)
	<b>Cabinet Office</b>	
(0)	Elections	(727)
(35)	Other Grants	(104)
	<b>Other Contributions</b>	
(19,379)	South Tees Clinical Commissioning Group	(20,953)
(2,868)	Redcar and Cleveland Borough Council	(2,071)
(1,023)	Stockton-on-Tees Borough Council	(1,772)
(258)	Tees, Esk and Wear Valleys NHS Foundation Trust	(227)
(543)	South Tees Hospitals NHS Foundation Trust	(814)
(711)	Hartlepool Borough Council	(938)
(416)	Tees Valley Combined Authority	(2,254)
(125)	Police and Crime Commissioner	(122)
(728)	Other Contributions	(3,400)
<b>(192,793)</b>	<b>Total Revenue Grants Credited to Services</b>	<b>(186,596)</b>
<b>(240,505)</b>	<b>TOTAL REVENUE GRANTS</b>	<b>(231,623)</b>
	<b>Capital Grants</b>	
	<b>Department for Education (DfE)</b>	
(1,874)	School Condition Allocation	(147)
(0)	Basic Need	(1,280)
(85)	Other DfE grants	(732)
	<b>Ministry of Housing, Communities and Local Government (MHCLG)</b>	
(2,067)	Disabled Facility	(1,999)
	<b>Department of Health and Social Care (DHSC)</b>	
(0)	Other DHSC grants	(198)
	<b>Department for Transport (DfT)</b>	
(994)	Local transport Plan	(2,840)
(1,813)	Joint Air Quality Unit Early Measures Funding	(0)
(0)	Other DfT Grants	(2,746)
	<b>Department for Digital, Culture, Media and Sport (DCMS)</b>	
(0)	Other DCMS Grants	(0)
	<b>Lottery Grants</b>	
(0)	Heritage Lottery Fund	(0)
	<b>Tees Valley Combined Authority</b>	
(0)	Other TVCA Grants	(4,671)
(7,170)	<b>Other Grants</b>	(1,747)
	<b>Other Contributions</b>	
(4,615)	Housing Development	(709)
(616)	Other Contributions	(1,043)
<b>(19,235)</b>	<b>Total Capital Grants</b>	<b>(18,112)</b>
<b>(259,739)</b>	<b>TOTAL GRANTS 2019/20</b>	<b>(249,735)</b>

Memo:

Capital grants recognised through CIES

(2,117)	Amount Applied Directly to Services	(1,427)
(17,118)	Amount recognised as Taxation and Non Specific Income – Note 10	(16,685)
<b>(19,235)</b>	<b>Total Capital Grants</b>	<b>(18,112)</b>

## Note 12 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 2018. 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 2019/2020 is set out below:

	Central Expenditure	Individual Schools Budget	Total
	£000	£000	£000
Final DSG for 2019/20 before Academy recoupment			(139,066)
Academy figure recouped for 2019/20			84,989
<b>Total DSG after Academy recoupment for 2019/20</b>			<b>(54,077)</b>
Plus : Brought forward from 2018/19			1,683
Less : Carry Forward to 2020/21 agreed in advance			0
<b>Agreed initial budgeted distribution for 2019/20</b>	<b>(15,758)</b>	<b>(36,636)</b>	<b>(52,394)</b>
In year adjustments	0	0	0
<b>Final budgeted distribution for 2019/20</b>	<b>(15,758)</b>	<b>(36,636)</b>	<b>(52,394)</b>
Less : Actual central expenditure	15,740	0	15,740
Less : Actual ISB deployed to schools	0	39,436	39,436
<b>Balance Carried Forward</b>	<b>(18)</b>	<b>2,800</b>	<b>2,782</b>

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

## Note 13 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).

2019/20	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	148,837	22,733	0	<b>171,570</b>
Director of Public Health (left October 2019)	60,071	9,191	0	<b>69,262</b>
Director of Public Health (started November 2019)	22,531	0	0	<b>22,531</b>
Strategic Director of Finance, Governance and Support / Section 151 Officer	103,161	15,756	0	<b>118,917</b>
Director of Adult Social Care and Health Integration	95,005	14,536	0	<b>109,541</b>
Executive Director Growth and Places	120,556	18,428	0	<b>138,983</b>
Executive Director of Children's Services (left March 2020)	211,971	16,892	0	<b>228,863</b>
Head of Legal Services – Monitoring Officer (left February 2020)	79,066	7,509	0	<b>86,575</b>
Director of Legal & Governance Services – Monitoring Officer (appointed January 2020)	18,857	2,885	0	<b>21,742</b>

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	100,954	15,447	0	<b>116,401</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	116,910	17,887	0	<b>134,797</b>
Head of Legal and Democratic Services – Monitoring Officer (left February 2019)	58,835	8,977	0	<b>67,812</b>
Head of Legal Services – Monitoring Officer (appointed February 2019)	8,208	1,282	0	<b>9,490</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.

2018/19			Remuneration Band (£)	2019/20		
MBC	School	Total		MBC	School	Total
21	9	<b>30</b>	50,000 to 54,999	32	9	<b>41</b>
6	8	<b>14</b>	55,000 to 59,999	15	4	<b>19</b>
9	4	<b>13</b>	60,000 to 64,999	7	3	<b>10</b>
3	6	<b>9</b>	65,000 to 69,999	7	2	<b>9</b>
5	3	<b>8</b>	70,000 to 74,999	2	5	<b>7</b>
2	1	<b>3</b>	75,000 to 79,999	1	0	<b>1</b>
0	0	<b>0</b>	80,000 to 84,999	2	0	<b>2</b>
4	0	<b>4</b>	85,000 to 89,999	3	0	<b>3</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	0	<b>0</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>



2018/19			Remuneration Band (£)	2019/20		
MBC	School	Total		MBC	School	Total
0	0	0	110,000 to 114,999	0	0	0
0	0	0	115,000 to 119,999	0	0	0
0	0	0	120,000 to 124,999	1	0	1
0	0	0	125,000 to 129,999	0	0	0
1	0	1	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
1	0	1	170,000 to 174,999	0	0	0
<b>52</b>	<b>31</b>	<b>83</b>	<b>Total</b>	<b>71</b>	<b>23</b>	<b>94</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 2019/2020 six staff were included in the above table due to one-off redundancy payments taking their total remuneration above £50,000 (2018/2019 6 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	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
							£000	£000
0 to 20,000	6	14	44	37	50	51	339	295
20,001 to 40,000	0	2	13	5	13	7	350	188
40,001 to 60,000	0	0	1	6	1	6	50	299
60,001 to 80,000	0	0	2	3	2	3	144	213
80,001 to 100,000	0	1	1	2	1	3	85	280
100,001 to 150,000	0	1	0	0	0	1	0	119
Over 150,001	1	1	0	0	1	1	183	162
<b>Total</b>	<b>7</b>	<b>19</b>	<b>61</b>	<b>53</b>	<b>68</b>	<b>72</b>	<b>1,151</b>	<b>1,555</b>

## Note 14 Members' Allowances and Expenses

2018/19		2019/20
£000		£000
297	Basic Allowance Paid	318
263	Special Responsibility Allowances Paid	198
7	Expenses	7
<b>567</b>	<b>Total</b>	<b>524</b>

## Note 15 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:

2018/19				2019/20		
Income	Expenditure	(Surplus) / Deficit		Income	Expenditure	(Surplus) / Deficit
£000	£000	£000		£000	£000	£000
(2,713)	1,881	(832)	Commercial and Industrial Properties	(2,570)	1,357	(1,213)
(2,925)	2,804	(121)	Building Maintenance, Cleaning and Security	(2,609)	2,378	(230)
(1,330)	1,208	(122)	Parking	(1,344)	984	(360)
(4,978)	4,907	(71)	Schools Catering	(4,739)	4,555	(184)
<b>(11,946)</b>	<b>10,800</b>	<b>(1,146)</b>	<b>Total</b>	<b>(11,262)</b>	<b>9,275</b>	<b>(1,987)</b>

## Note 16 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:

2018/19		2019/20
£000		£000
89	Fees payable for external audit service	89
15	Fees payable for the certification of grant claims and returns	15
<b>104</b>	<b>Total</b>	<b>104</b>

## Note 17 Agency Services

The Council has no material agency arrangements in respect of the 2019/20 financial year.

## Note 18 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 of the accounts to assess the extent to which the Council might be constrained in its ability to operate independently or 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 11. Debtor and Creditor balances for Central Government bodies are shown in notes 31 and 34.

### 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.

### 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 £11.0 million (2018/19 - £10.8 million) and made charges to the Fund for Support Services of £1,022,000 (2018/19 - £1,202,000).

### Middlesbrough Development Company

As set out in the narrative report and the group accounts section later in the Statement of Accounts, the Council set up a wholly owned subsidiary company in February 2019 to develop the housing supply and underused sites in the local area. MDC was given £700k of Section 106 funding previously received by the Council. However it only spent £100k of the allocated funding due to delays in acquiring and demolishing the Tollesby Shops precinct.

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 2020				
Organisation	Expenditure transactions in year	Income Transactions in year	Year End Creditor Balances	Year End Debtor Balances
	£000	£000	£000	£000
Tees Valley Combined Authority	4,245	19	0	0
Linx Youth Project	0	2	0	0
Middlesbrough College	357	58	13	0
Tees Esk and Wear Valley NHS	61	0	0	0
MVDA	4,045	0	0	0
Horizons Specialist Academy Trust	853	63	0	1
Cleveland Fire Authority	3,020	266	0	0
Middlesbrough Environment City Trust	0	11	0	1

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
Cleveland 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

## Note 19 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.

2018/19		2019/20
£000		£000
(291)	<b>Balance Brought Forward</b>	0
	<b>Funding Provided to the Pooled Budget</b>	
(8,175)	By the Council	(10,691)
(11,061)	By South Tees Clinical Commissioning Group	(11,548)
<b>(19,527)</b>	<b>Total Funding</b>	<b>(22,239)</b>
	<b>Expenditure met from the Pooled Budget</b>	
16,243	By the Council	18,742
3,087	By South Tees Clinical Commissioning Group	3,022
<b>19,330</b>	<b>Total Expenditure</b>	<b>21,764</b>
197	Capital Amounts allocated to 2020/21	293
<b>0</b>	<b>Net surplus arising on the Pooled Budget to be carried forward</b>	<b>(182)</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 below:

2018/19		2019/20
£000		£000
(494)	<b>Balance brought forward</b>	(452)
1,622	Gross Expenditure	1,980
(1,580)	Gross Income	(1,764)
<b>(452)</b>	<b>Balance carried forward</b>	<b>(236)</b>
	<b>Contribution from Partners</b>	
(154)	Middlesbrough Council	(183)
(141)	Stockton Borough Council	(183)
(151)	Redcar & Cleveland Borough Council	(165)
(84)	Hartlepool Borough Council	(96)
(438)	South Tees Clinical Commissioning Group	(493)
(453)	North Tees and Hartlepool NHS Foundation Trust	(508)
(159)	Other Income	(136)
<b>(1,580)</b>	<b>Total</b>	<b>(1,764)</b>

## Notes Supporting the Balance Sheet

### Note 20 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.

2018/19		2019/20
£000		£000
<b>185,173</b>	<b>Opening Capital Financing Requirement</b>	<b>195,235</b>
	<b>Capital Investment</b>	
22,587	Property, Plant and Equipment	37,935
0	Investment Property	21,125
23	Assets Held for Sale	32
1,073	Intangible Assets	1,146
0	Long Term Debtors	0
8,723	Revenue Expenditure Funded from Capital under Statute	8,183
<b>32,406</b>	<b>Total Capital Investment</b>	<b>68,421</b>
	<b>Sources of Finance</b>	
(4,391)	Capital Receipts	(1,165)
(2,117)	Revenue Expenditure Funded from Capital under Statute – Grant Received	(1,741)
(12,801)	Government Grants and other contributions applied in year	(16,361)
	<b>Sums Set Aside from Revenue</b>	
(31)	Direct revenue contributions	(7)
(3,004)	MRP/Loans Fund Principal	(3,440)
<b>195,235</b>	<b>Closing Capital Financing Requirement</b>	<b>240,942</b>
	<b>Explanation of Movement in Year</b>	
13,066	Increase in underlying need to borrow (unsupported by government assistance)	49,147
0	Reduction in Long Term Debtors	0
(3,004)	MRP/loans fund Principal	(3,440)
<b>10,062</b>	<b>Increase in Capital Financing Requirement</b>	<b>45,707</b>

The capital investment figure above includes £68.2 million as a direct result of the Capital programme including the Centre Square Building Finance Lease, plus an additional £0.244 million on donated assets.

## Note 21 Capital Commitments

The Council has an approved 2020/21 budget for Capital works of £63.3m, and a further £84.7 planned until 2022/23.

Contracts for material capital spend are already in place for the following schemes:

Project	2020/21
	Approved Budget
	£000
A66 Throughabout/Cargo Fleet Lane	2,537
Street Lighting	1,514
Teesside Advanced Manufacturing Park	700
Preventative Services Accommodation	937
LED Street Lighting Upgrade (Phase 2)	417
JAQU - Winward Way to Cleveland Street	479
<b>Total</b>	<b>6,584</b>

## 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.

2019/20	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 or Valuation</b>							
<b>At 1 April 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>
Additions	5,872	445	2,736	9,633	20	18,962	<b>37,669</b>
Donations	138	0	0	0	0	0	<b>138</b>
Revaluation increases to Revaluation Reserve	(1,988)	4,676	0	0	0	0	<b>2,688</b>
Revaluation decreases to Deficit on Provision of Services	(5,316)	327	0	0	0	(13,614)	<b>(18,602)</b>
Derecognition - Disposals	(1,270)	(1,030)	(1,359)	0	0	0	<b>(3,659)</b>
Assets reclassified (to) Held for Sale	0	0	0	0	0	0	<b>0</b>
Assets reclassified (to)/from Assets – other categories	502	100	0	0	5	(530)	<b>77</b>
<b>At 31 March 2020</b>	<b>187,342</b>	<b>53,486</b>	<b>38,900</b>	<b>216,732</b>	<b>8,282</b>	<b>11,593</b>	<b>516,335</b>

2019/20	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 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>
Depreciation charge for the year	(4,881)	(140)	(2,563)	(7,579)	0	0	(15,163)
Depreciation written out to the Revaluation Reserve	4,554	18	0	0	0	0	4,572
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services.	0	0	0	0	0	0	0
Impairment (losses)/reversals written out to the Revaluation Reserve	0	0	0	0	0	0	0
Depreciation written out to the Deficit on Provision of Services	1,283	10	0	0	0	0	1,294
Derecognition - Disposals	1,263	70	1,242	0	0	0	2,575
Assets reclassified (to)/from Assets Held for Sale	0	0	0	0	0	0	0
Assets reclassified (to)/from other categories	(1,918)	1,918	0	0	0	0	0
<b>At 31 March 2020</b>	<b>(4,892)</b>	<b>1,814</b>	<b>(31,112)</b>	<b>(82,094)</b>	<b>0</b>	<b>0</b>	<b>(116,283)</b>
<b>Net Book Value At 31 March 2020</b>	<b>182,449</b>	<b>55,300</b>	<b>7,788</b>	<b>134,639</b>	<b>8,282</b>	<b>11,593</b>	<b>400,052</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 Surplus Assets

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 Surplus Assets

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



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 or 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>

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 2020 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 2020</b>
	<b>£000</b>
The Manor Youth and Community Centre	986
Neptune Centre	8,130
Rainbow Centre	8,314
Middlesbrough Sports Village	17,831
Golf Course	538
<b>Total</b>	<b>35,799</b>

## Note 23 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 Align Property Partners, 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 2019/20 is 1 April 2019. 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 below shows the value of assets that have been revalued during 2019/2020 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 Assets	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets under Construction	Total PPE
	£000	£000	£000	£000	£000	£000	£000
Carried at historical cost at 31 March 2020	0	0	7,787	134,638	8,283	11,593	162,300
Valued at current value as at:							
31 March 2020	9,543	5,418	0	0	0	0	14,961
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	11,182	210	0	0	0	0	11,392
<b>Total Cost or Valuation</b>	<b>184,371</b>	<b>53,381</b>	<b>7,787</b>	<b>134,638</b>	<b>8,283</b>	<b>11,593</b>	<b>400,052</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 and 24 reconciling the movement over the year in Property, Plant and Equipment and Investment Property balances.

During 2019/20 the Council has recognised a net downward revaluation of £5.4 million. There were no impairment of assets in 2019-20.

- Downward revaluation on Centre Square Buildings 1 and 2 amounting to £7.8m due to moving from a historic cost to a commercial valuation based on tenancy arrangements that are only just in their infancy.
- Downward revaluation of £1.2m on Newham Grange Leisure Farmhouse and Buildings due to a decline in condition
- Downward Revaluation of £13.6m on Teesside Advanced Manufacturing Park (TAMP). Although this site was not operational at 31<sup>st</sup> March, the Council was aware that the value of the investment would be much lower than the historic cost due to the location and the phased approach to letting these properties. The reduction in value given it is material has therefore been recognised at the earliest opportunity.
- Downward revaluation of £6m 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 2019 to 31st March 2020. This relates to properties which are 'specialised' in nature and therefore valued using the DRC method.
- Upward revaluation of Larchfield Farm of £3.2m due to a surrender of lease back to the Council
- Upward revaluation of £1.4 m on the Hemlington Hospital Site, £1.9m on Nunthorpe Grange Site and £1.3m on Newham Hall Site, due to potential prospects of development of the site

## Note 24 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 an increase in the valuation of heritage assets during 2019/20 of £181,000 relating to a revaluation of the jewellery held by the Council at MIMA. A rolling programme of revaluations has being developed and has been started this year with plans to cover the whole portfolio within the next five years.

An analysis of the current Heritage Asset valuation held by the Council is set out below:

	Collections				
	Ceramic	Art	Natural World	Other Cultural Interests	Total
	£000	£000	£000	£000	£000
<b>At 31 March 2020</b>	<b>2,239</b>	<b>8,560</b>	<b>9,012</b>	<b>7,752</b>	<b>27,563</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 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 25 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.

2018/19		2019/20
£000		£000
<b>2,546</b>	<b>Balance at start of the year</b>	<b>2,610</b>
	<b>Additions</b>	
0	Purchases	21,125
0	Donated	
0	Disposals	
64	Net gains from fair value adjustments	(8,043)
	<b>Transfers</b>	
0	(To)/From Property, Plant and Equipment	212
<b>0</b>	<b>Other Changes</b>	
<b>2,610</b>	<b>Balance at end of the year</b>	<b>15,904</b>

There are currently only 14 property assets under this classification, which have all been revalued during the 19/20 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.

2018/19		2019/20
£000		£000
(17)	Rental Income from Investment Property	(1,360)
0	Direct operating expenses arising from Investment Property	0
<b>(17)</b>	<b>Net Gain</b>	<b>(1,360)</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 26 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:

31 March 2019		31 March 2020
£000		£000
	<b>Balance at Start of Year</b>	
10,753	Gross Carrying Amount	11,826
(5,791)	Accumulated amortisation	(7,839)
<b>4,962</b>	<b>Net Carrying amount at start of the year</b>	<b>3,987</b>
1,073	Additions : purchases	1,146
(2,048)	Amortisation for the period	(2,150)
0	Disposals	0
<b>3,987</b>	<b>Net Carrying amount at the end of the year</b>	<b>2,982</b>
	Comprising:	
11,826	Gross Carrying amount	12,972
(7,839)	Accumulated amortisation	(9,989)
<b>3,987</b>	<b>Net Carrying amount at the end of the year</b>	<b>2,982</b>

## Note 27 Assets Held for Sale

If an asset is 'held for sale', the economic benefits of that asset are obtained through its sale rather than through its continuous use by the Council. Such assets cease to be depreciated in financial value, as they are no longer consumed through service provision.

The Council currently has four Assets Held for Sale. The Housing Delivery Vehicle for Gresham Phase 1 has been re-categorised to be included within the Inner Middlesbrough Gresham Phase 2 a scheme following revaluation. Melrose House was sold in 2019-20 and has been removed from the class. The main items held within the class are land assets with the main item being the Former Brackenhoe School at a value of £4.6m.

31 March 2019		31 March 2020
£000		£000
	<b>Short Term Assets Held for Sale</b>	
<b>0</b>	<b>Balance outstanding at start of year</b>	<b>6,700</b>
985	Transferred between Long-Term and Current Assets Held for Sale	0
	<b>Assets newly classified as held for sale</b>	
5,612	Transferred from Property, Plant and Equipment	(289)
23	Additions	32
(139)	Revaluation losses	0
219	Revaluation gains	0
	<b>Assets declassified as held for sale:</b>	
0	Assets sold	(967)
0	Transferred to Property, Plant and Equipment	0
<b>6,700</b>	<b>Balance outstanding at year end</b>	<b>5,476</b>

31 March 2019		31 March 2020
£000		£000
	<b>Long Term Assets Held for Sale</b>	
<b>985</b>	<b>Balance outstanding at start of year</b>	<b>0</b>
(985)	Transferred between Long-Term and Current Assets Held for Sale	0
	<b>Assets newly classified as held for sale</b>	
0	Transferred from Property, Plant and Equipment	0
0	Additions	0
0	Revaluation losses	0
<b>0</b>	<b>Balance outstanding at year end</b>	<b>0</b>

## Note 28 Financial Instruments

Financial Instruments are any contract that gives rise to a financial asset in one organisation and a financial liability of another. This covers – investments, cash, debtors, creditors, accruals, loans, finance leases, derivatives and guarantees. These are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of the financial instrument. They are classified based on the business model for holding the instrument and its expected cash flow characteristics.

**Financial Liabilities:** These are initially measured at fair value and are then subsequently valued at amortised cost. For the Council's borrowing (Public Works Loan Board, Lender Option Borrower Option and market loans), this means the amounts held in the accounts are based on the outstanding principal plus any accrued interest.

Financial Assets: These again are initially measured at amortised cost and represent loans and loan type amounts where payments of principal and interest take place on set dates and to particular amounts.

There are two new categories of financial asset introduced under IFRS9. These are fair value through other comprehensive income and expenditure (FVOCI) or fair value through profit and loss (FVPL). These assets are carried at fair value in the balance sheet. FVOCI has a specific restriction meaning that any gains or losses can be reversed through statute, whereas FVPL gains and losses are true charges to the Council's general fund.

All the Council's financial assets, except the long-term investments in Teesside Airport and Suez recycling and recovery, are held at amortised cost. The Council has elected to hold the two long-term investments at FVOCI given the risk of gains on these holdings having a negative effect on the Council's financial position.

#### Financial Instruments: Balances

The investments and borrowings disclosed in the Balance Sheet consist of the following categories:

Long Term			Short Term	
As at 31 March 2019	As at 31 March 2020		As at 31 March 2019	As at 31 March 2020
£000	£000		£000	£000
		<b>Financial Assets – Loans and Receivables</b>		
		<b>Held at amortised cost (unless indicated)</b>		
309	309	Long Term Investments (FVOCI)	0	0
0	0	Short Term Investments	10,000	22,000
0	0	Cash and Cash Equivalents	3,450	22,868
<b>309</b>	<b>309</b>	<b>Total Investments</b>	<b>13,450</b>	<b>44,868</b>
		<b>Held as Debtors – amortised cost</b>		
10,884	10,003	Long Term Debtors	0	0
0	0	Short Term Debtors	10,343	9,860
<b>10,884</b>	<b>10,003</b>	<b>Total Debtors</b>	<b>10,343</b>	<b>9,860</b>
<b>11,193</b>	<b>10,312</b>	<b>Total Financial Assets</b>	<b>23,793</b>	<b>54,728</b>
		<b>Financial Liabilities – at Amortised Cost</b>		
		<b>Held as Borrowings</b>		
(149,344)	(187,884)	Long Term Borrowing	0	0
0	0	Short Term Borrowing	(13,203)	(54,158)
<b>(149,344)</b>	<b>(187,884)</b>	<b>Total Borrowings</b>	<b>(13,203)</b>	<b>(54,158)</b>
		<b>Held as Other Payables</b>		
0	0	Short Term Creditors	(5,896)	(9,439)
(1,733)	(1,589)	Long Term Creditors	0	0
<b>(1,733)</b>	<b>(1,589)</b>	<b>Total Held as Other Payables</b>	<b>(5,896)</b>	<b>(9,439)</b>
<b>(151,077)</b>	<b>(189,473)</b>	<b>Total Financial Liabilities – at Amortised Cost</b>	<b>(19,099)</b>	<b>(63,597)</b>

The increase in long term borrowing above reflects the financing need from the 2019/20 investment strategy less any debt maturities repaid during the financial year. Also, the high value of short term borrowing reflects the 1% increase in Public Works Loan Board rates and long term borrowing not being good value currently.



## Note 29 Financial Instruments: Fair Value and Risks

### Fair Value of Assets and Liabilities

Financial Instruments are carried in the Balance Sheet at amortised cost. 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 contractual life using the following assumptions:

- Where the instrument will mature in the next 12 months, the carrying amounts are assumed to be a good reflection of 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 2020;
- The fair value of trade payables and other receivables is taken to be the invoiced or billed amount; and
- The carrying amounts of all other instruments are taken to be a reasonable approximation of fair value.

The fair values of the Council's financial instruments are as follows:

2018/19			2019/20	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000		£000	£000
		<b>Financial Assets – Loans and Receivables</b>		
13,759	13,582	Held as Investments	45,178	45,178
21,226	21,226	Held as Debtors	19,862	19,862
<b>34,985</b>	<b>34,808</b>	<b>Financial Assets – Loans and Receivables</b>	<b>65,040</b>	<b>65,040</b>
		<b>Financial Liabilities – at Amortised Cost</b>		
(162,547)	(204,445)	Held as Borrowings	(242,042)	(283,517)
(5,896)	(5,896)	Held as Creditors	(9,439)	(9,439)
<b>(168,443)</b>	<b>(210,341)</b>	<b>Financial Liabilities – at Amortised Cost</b>	<b>(251,481)</b>	<b>(292,956)</b>

### Financial Instruments: Risks

The fair value of the financial liabilities held at amortised cost above is higher than their balance sheet carrying amount because the Council's portfolio of loans include a number of loans where the interest rate payable is than the current rates available for similar loans 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 by holding these instruments:

- 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 to both suppliers and staff on time.
- Market risk - the possibility that an unplanned financial loss will materialise due to 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 process focus on the unpredictability of financial markets, and is 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 on Capital Finance, 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 levels and a legal limit.
  - 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 the Council's annual budget setting report or before the start of the year to which they relate. The items above reported with the Capital Strategy Report 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 Capital Strategy Report, which incorporates the prudential indicator amounts was approved by the Council on 4 March 2019 and is available on the Council's website. The key issues within the strategy were:

- The Authorised Limit for 2019/20 was set at £273m. This is the maximum limit of external borrowings or other long-term liabilities.
- The Operational Boundary was expected to be £253m. 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 2019/20 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 Treasury Management Code of Practice and were also updated on 4 March 2019.

## **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 Capital Strategy Report, 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 Capital Strategy Report 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 £17.50m 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.

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, £10.586m of the £11.463m 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:

2018/19		2019/20
£000		£000
5,215	Less than 3 months	7,732
1,079	Between 3 to 6 months	580
1,353	Between 6 months to 1 year	546
1,565	More than 1 year	1,728
<b>9,212</b>	<b>TOTAL</b>	<b>10,586</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 2020 was £0.965m. (31 March 2019 - £1.05m).

### **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:

2018/19		2019/20
£000		£000
(13,203)	Less than 1 Year	(54,158)
(12,135)	Between 1 – 2 Years	(25,096)
(18,813)	Between 2 – 5 Years	(23,237)
(33,345)	Between 5 – 10 Years	(32,425)
(12,501)	Between 10 – 15 Years	(16,649)
(9,913)	Between 15 – 20 Years	(8,975)
(4,899)	Between 20 – 25 Years	(10,052)
96	Between 25 – 30 Years	(6,857)
(15,412)	Between 30 – 35 Years	(20,679)
(12,421)	Between 35 – 40 Years	(18,825)
(30,000)	More than 40 Years	(25,090)
<b>(162,546)</b>	<b>TOTAL</b>	<b>(242,042)</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 30 Financial Instruments: Income and Expenditure**

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

2018/19			2019/20	
Financial Assets	Financial Liabilities		Financial Assets	Financial Liabilities
£000	£000		£000	£000
		<b>Income</b>		
(451)	0	Interest Income	(419)	0
		<b>Expenditure</b>		
0	5,255	Interest Expense		5,682
0	9	Fee Expense		35
<b>0</b>	<b>5,264</b>	<b>Total Expenditure</b>		<b>5,716</b>
<b>0</b>	<b>4,813</b>	<b>Net Expenditure for the year</b>		<b>5,297</b>

## **Note 31 Debtors**

31 March 2019		31 March 2020
£000		£000
	<b>Short Term Debtors</b>	
3,558	Central Government Bodies	7,210
7,367	Other Local Authorities	9,640
2,982	NHS Bodies	2,668
24,960	Other entities and individuals	25,892
<b>38,867</b>	<b>Total</b>	<b>45,410</b>
	<b>Long Term Debtors</b>	
6,167	Cleveland Mall – Holiday Inn	5,794
286	Other Long Term Debtors	228
4,431	The Welding Institute	3,981
<b>10,884</b>	<b>Total</b>	<b>10,003</b>

## Note 32 Inventories

2019/20 Financial Year	1 April 2019	Purchases	Expense in the year	Written off	31 March 2020
	£000	£000	£000	£000	£000
Stocks	2,316	6,274	(6,223)	58	2,425

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

## Note 33 Cash and Cash Equivalents

31 March 2019		31 March 2020
£000		£000
76	Cash held by the Council	69
(748)	Bank current accounts	799
3,500	Short-term deposits	22,000
<b>2,828</b>	<b>Total</b>	<b>22,868</b>

The increase in cash and cash equivalents relates to £20m of short-term borrowing undertaken in March to cash flow the initial response to Covid-19 and payments under the government's grants to small businesses scheme. Most of this cash has been spent in the early part of 2020/21 as activities have been undertaken and the cash funds were only for temporary purposes.

## Note 34 Short Term Creditors

31 March 2019		31 March 2020
£000		£000
(7,827)	Central Government Bodies	(17,115)
(2,320)	Other Local Authorities	(2,918)
(586)	NHS Bodies	(1,143)
(25,200)	Other Entities and individuals	(23,929)
<b>(35,933)</b>	<b>Total</b>	<b>(45,105)</b>

## Note 35 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 2019	Additional Amount in year	Amounts used in year	Balance at 31 March 2020
	£000	£000	£000	£000
Business Rates Appeals	(2,587)	(639)	795	(2,431)
Early Retirement / Voluntary Redundancy	0	(41)	0	(41)
Social Regeneration Provision	0	(35)	0	(35)
<b>Total</b>	<b>(2,587)</b>	<b>(715)</b>	<b>795</b>	<b>(2,507)</b>

**Business Rates Appeals** – The Council’s share of the Collection Fund Business Rates Appeals Provision of £2,430,547 is split between £1,449,356 Short Term and £981,191 Long Term as projected using the Council’s Business Rate Appeals tool.

## Note 36 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.

31 March 2019		31 March 2020
£000		£000
(8,341)	Capital Grants Unapplied Reserve	(9,690)
(4,819)	Capital Contributions Unapplied Reserve	(3,389)
(77)	Capital Receipts Reserve	(145)
(11,904)	Uncommitted General Fund	(9,400)
(21,525)	Earmarked Reserves	(19,311)
<b>(46,666)</b>	<b>Total</b>	<b>(41,934)</b>

The purpose of each Reserve is as follows:

### Capital Grants and Contributions Unapplied Reserves

These reserves hold amounts from Capital Grants and Contributions 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 in note 7.

## Note 37 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.

31 March 2019		31 March 2020
£000		£000
(81,266)	Revaluation Reserve	(85,357)
(163,835)	Capital Adjustment Account	(136,873)
(2)	Deferred Capital Receipts Reserve	0
199,376	Pensions Reserve	278,882
(860)	Collection Fund Adjustment Account	(482)
1,081	Accumulating Compensated Absences Adjustment Account	896
<b>(45,506)</b>	<b>Total Unusable Reserves</b>	<b>57,064</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 non-current 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.

### **Pensions 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 2019/20**

<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 2019</b>	<b>(81,266)</b>	<b>(163,835)</b>	<b>(2)</b>	<b>199,376</b>	<b>(860)</b>	<b>1,081</b>	<b>(45,506)</b>
Allocated from Other Comprehensive Income and Expenditure	(7,312)	0	1	61,974	0	0	<b>54,663</b>
Transfers from Usable Reserves (Note 6)	0	30,184	1	17,531	376	(185)	<b>47,907</b>
Difference between fair value and historical cost depreciation	1,294	(1,294)	0	0	0	0	<b>0</b>
Accumulated Revalued Amount on assets sold or scrapped	1,926	(1,926)	0	0	0	0	<b>0</b>
<b>Balance at 31 March 2020</b>	<b>(85,357)</b>	<b>(136,873)</b>	<b>0</b>	<b>278,882</b>	<b>(482)</b>	<b>896</b>	<b>57,064</b>



## Movement in Unusable Reserves Statement 2018/19

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 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	(10,420)	0	0	(23,562)	0	0	<b>(33,982)</b>
Transfers from Usable Reserves (Note 6)		72,970	0	22,539	(1,543)	(481)	<b>93,485</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>(81,266)</b>	<b>(163,835)</b>	<b>(2)</b>	<b>199,376</b>	<b>(860)</b>	<b>1,081</b>	<b>(45,506)</b>

## Note 38 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 reflected 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. As explained in the narrative report earlier, the income, expenditure, assets and liabilities set out below include the court of appeal decision to include guaranteed minimum pension and the McCloud judgement within the local government scheme benefits going forwards.

#### Comprehensive Income and Expenditure Statement

Funded 2018/19	Unfunded 2018/19	Comprehensive Income and Expenditure Statement	Funded 2019/20	Unfunded 2019/20
£000	£000	Charged to the Surplus or Deficit on the Provision of Services	£000	£000
		As cost of Service:		
20,263	0	Current Service cost	25,074	0
9,374	0	Settlements and Curtailments	460	0
4,275	779	As Financing and Investment Income and Interest on net defined benefit	3,942	692
<b>33,912</b>	<b>779</b>	<b>Total charged to the Deficit on the Provision of Services</b>	<b>29,476</b>	<b>692</b>
		<b>Charged to Other Comprehensive Income and Expenditure</b>		
(23,194)	(368)	Actuarial (Gains) / Losses	63,368	(1,393)
<b>10,718</b>	<b>411</b>	<b>Total to the Comprehensive Income and Expenditure Statement</b>	<b>92,844</b>	<b>(701)</b>

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

Funded 2018/19	Unfunded 2018/19	Movement in Reserves Statement (General Fund)	Funded 2019/20	Unfunded 2019/20
£000	£000			
(33,912)	(779)	Reversal of total charged to the Deficit on the Provision of Service	(29,476)	(692)
		<b>Actual Amount charged for pensions in the year:</b>		
10,777	1,375	Employers contributions payable to scheme	10,967	1,670
<b>(23,135)</b>	<b>596</b>	<b>Total amount included in the General Fund for the year</b>	<b>(18,509)</b>	<b>978</b>

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

Funded 2018/19	Unfunded 2018/19	Reconciliation of Liabilities	Funded 2019/20	Unfunded 2019/20
£000	£000		£000	£000
<b>(888,117)</b>	<b>(30,641)</b>	<b>Opening Balance at 1 April</b>	<b>(934,668)</b>	<b>(29,677)</b>
(20,263)	0	Current service cost	(25,074)	0
(22,827)	(779)	Interest cost	(22,145)	(692)
(4,266)	0	Contributions by scheme participants	(4,387)	0
(14,807)	368	Actuarial (losses)	45,399	1,393
24,986	1,375	Benefits paid	28,783	1,670
(9,374)	0	Past service curtailments	(460)	0
<b>(934,668)</b>	<b>(29,677)</b>	<b>Closing Balance at 31 March</b>	<b>(912,552)</b>	<b>(27,306)</b>

## Reconciliation of Fair Value of Scheme Assets

Funded 2018/19	Unfunded 2018/19	Reconciliation of Fair Value of Scheme Assets	Funded 2019/20	Unfunded 2019/20
£000	£000		£000	£000
718,360	0	<b>Opening Balance at 1 April</b>	764,970	0
18,552	0	Expected return on plan assets	18,203	0
38,001	0	Actuarial Gains	(108,767)	0
10,777	1,375	Employer contributions	10,967	1,670
4,266	0	Contributions by scheme participants	4,387	0
(24,986)	(1,375)	Benefits paid	(28,783)	(1,670)
<b>764,970</b>	<b>0</b>	<b>Closing Balance at 31 March</b>	<b>660,977</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 £90.564 million gain (2018/19 £58.773 million gain).

Scheme History	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
	£000	£000	£000	£000	£000	£000
Present value of liabilities	(771,686)	(760,739)	(895,644)	(918,758)	(964,345)	(939,858)
Fair value of assets	596,527	575,103	704,295	718,360	764,970	660,977
<b>Scheme Deficit</b>	<b>(175,159)</b>	<b>(185,636)</b>	<b>(191,349)</b>	<b>(200,398)</b>	<b>(199,375)</b>	<b>(278,881)</b>

The scheme deficit shown above includes £26.306 million in respect of unfunded defined benefit obligations (2018/19 £29.667 million).

The liabilities show the underlying commitments that the Council has in the long term 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 2020 is £10.967 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 2019.

The principal assumptions used by the actuary have been:

	2018/19	2019/20
<b>Mortality Assumptions</b>		
Longevity at 65 for current pensioners		
• Men	22.20	21.8
• Women	24.10	23.5
Longevity at 65 for future pensioners		
* Men	23.90	23.2
* Women	25.90	25.3
<b>Other Assumptions</b>		
Rate of Inflation (RPI)	3.30%	N/A
Rate of Inflation (CPI)	2.20%	2.00%
Rate of increase in salaries	3.20%	3.00%
Rate of increase in pensions	2.20%	2.00%
Rate of discounting scheme liabilities	2.40%	2.30%
<b>Take up of option to convert annual pension into retirement lump sum</b>	<b>80.00%</b>	<b>80.00%</b>

The LGPS's assets consist of the following categories, by proportion of the total assets held:

	2018/19	2019/20
Equity Investments	75.60%	72.70%
Gilts	0.0%	0.0%
Other Bonds	0.0%	0.0%
Property	8.60%	8.90%
Cash / Liquidity	15.80%	18.40%
	<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 2020 and the projected service cost 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)	894,301	930,803
% change in present value of total obligation	-2.0%	2.0%
Projected service cost (£000's)	23,317	25,083
Approximate % change in projected service cost	-3.6%	3.6%

<b>Rate of general increase in salaries</b>		
Adjustment to salary rate	0.1% p.a.	-0.1% p.a.
Present value of total obligation (£000's)	914,377	910,727
% change in present value of total obligation	0.2%	-0.2%
Projected service cost (£000's)	24,188	24,188
Approximate % change in projected service cost	0.0%	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)	928,978	896,126
% change in present value of total obligation	1.8%	-1.8%
Projected service cost (£000's)	25,083	23,317
Approximate % change in projected service cost	3.7%	-3.6%

<b>Post retirement mortality assumption</b>		
Adjustment to mortality age rating assumption*	-1 year	+1 year
Present value of total obligation (£000's)	942,666	883,350
% change in present value of total obligation	3.3%	-3.3%
Projected service cost (£000's)	25,131	23,245
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 39 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 2019/20 the Council paid £2.56 million (2018/19 – £2.50 million) to Teachers' Pensions in respect of teachers' retirement benefits, representing an average of 20.88% (2018/19 – 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 40 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 aims to provide suitable affordable accommodation for local businesses.

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

<b>31 March 2019</b>		<b>31 March 2020</b>
<b>£000</b>		<b>£000</b>
2,125	No Later than 1 year	2,065
4,925	Later than 1 year and not later than 5 years	5,108
29,657	Later than 5 years	30,119
<b>36,707</b>	<b>Total</b>	<b>37,291</b>

### Finance Leases

The Council acted as a facilitator for the relocation of The Welding Institute (TWI) to the Tees Advanced Manufacturing Park in 2017. This was consistent with the Council's priority in economic growth. The lease between the Council and TWI allows the lessee to purchase the property for a nominal amount after 13 years. Also the lease rental payments cover the net council investment in the site & building over the lease period.

As the risks and rewards of the lease reside with TWI, the asset is not included within the Council's Property, Plant and Equipment valuation. A long-term debtor has instead been included in the balance sheet to reflect the investment by the Council and this will be repaid over the life of the remaining lease.

The future minimum lease payments receivable through the finance lease are detailed below:

31 March 2019 £000		31 March 2020 £000
464	No later the 1 year	464
1,856	Between 1 year and 5 years	1,856
2,804	Later than 5 years	2,340
<b>5,124</b>	<b>Total</b>	<b>4,660</b>

## Note 41 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 2019 £000		31 March 2020 £000
295	No Later than 1 year	360
1,106	Later than 1 year and not later than 5 years	1,238
870	Later than 5 years	719
<b>2,271</b>	<b>Total</b>	<b>2,316</b>

## Note 42 Contingent Liabilities

At 31 March 2020, the Council had the following contingent liabilities:

### Home House Guarantee

An agreement was entered into with Home House, 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 during 2020; the financial ramifications remain unclear at this time.

### Employment Tribunal Case

A previous employee who left after a restructure is in the process of an employment tribunal case against the Council for unfair dismissal. The Council has lost the original hearing but no settlement value has yet been agreed between the parties. This may eventually return to the Employment Tribunal in the future if no local agreement has been reached.

## 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 follows:

	Registered Charity Number – if applicable	Fund Balance at 1 April 2019	Surplus / (Deficit) in 2019/20	Fund Balance at 31 March 2020
		£	£	£
Teesside Education Endowment	514301	7,421	42	7,463
Capt J.V.Nancarrow Trust – Educational support	506937	110,362	625	110,987
Middlesbrough Educational Trust	532293	67,444	369	67,812
Hustler Playing Fields Trust – Sport	523381	1,522,597	272	1,522,869
W.M.Anderton Trust – Kings Manor School and Acklam 6 <sup>th</sup> Form College	509198	1,376	8	1,384
Teesside Relief in Sickness	229137	3,930	22	3,952
Lady Crosswaite Bequest – support for the older people	234932	481,891	1,489	483,380
Home Independent Trust *	226433	123,900	(248)	123,652
Wilson & Marwood Trust – support for disadvantaged people	221291	15,443	85	15,528
Sterwart Park Trust – Recreation	507075	8,705	49	8,754
Levick Trust – accommodation for over 60's	255056	336,396	1,260	337,657
Captain Cook Birthplace Trust	507317	8,995	(8,995)	0
Dorman Museum and Art Gallery Appeal Trust	n/a	3,287	19	3,305
<b>Total</b>		<b>2,691,747</b>	<b>(5,004)</b>	<b>2,686,742</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.

2018/19		2019/20
£000		£000
(24,962)	Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	(60,473)
1,000	Net Proceeds on change in Short Term Investments	(12,000)
0	Cash returned on Long Term Deposits	0
4,467	Proceeds from sale of PPE, Investment Property and Intangible Assets	(1,232)
<b>(19,495)</b>	<b>Net Cash Flow from Investing Activity</b>	<b>(73,705)</b>

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

2018/19		2019/20
£000		£000
(146)	Amounts applied to finance lease repayments (Capital Element)	(145)
3,533	Net repayments of short and long term borrowing	79,495
<b>3,387</b>	<b>Net Cash Flow from Financing Activity</b>	<b>79,351</b>



## Notes Supporting the Expenditure and Funding Analysis

### Note 46 Adjustment between Funding and Accounting Basis

Adjustments between Funding and Accounting Basis				
2019/20				
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	18,721	922	(1,048)	18,595
Public Health and Public Protection	291	700	(3,774)	(2,783)
Education	1,853	1,607	(843)	2,617
Children's Care	86	1,326	619	2,031
Business Performance & Change	22	594	(27)	589
Adult Social Care and Health Integration	1,322	2,211	658	4,191
Environment & Commercial Services	15,760	3,002	3,825	22,587
Finance, Governance & Support	3,070	2,020	2,989	8,079
Legal & Democratic Services	192	636	379	1,207
Prevention and Partnerships	40	1,212	855	2,107
Central Costs	0	(1,331)	(6,253)	(7,584)
<b>Net Cost of Services</b>	<b>41,357</b>	<b>12,899</b>	<b>(2,619)</b>	<b>51,637</b>
<b>Other Income and Expenditure from the Expenditure and Funding Analysis</b>	<b>(8,046)</b>	<b>4,635</b>	<b>(2,181)</b>	<b>(5,592)</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>33,311</b>	<b>17,534</b>	<b>(4,800)</b>	<b>46,045</b>

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	8,272	1,331	1,993	11,596
Public Health and Public Protection	13	415	(3,022)	(2,594)
Education	3,061	0	(2,172)	889
Children's Care	(435)	2,486	460	2,511
Business Performance & Change	486	0	0	486
Adult Social Care and Health Integration	(922)	1,591	(264)	405
Environment & Commercial Services	17,238	1,818	5,344	24,400
Finance, Governance & Support	2,526	10,575	4,575	17,676
Legal & Democratic Services	493	0	0	493
Prevention and Partnerships	(2)	622	900	1,520
Central Costs	0	(1,355)	(2,378)	(3,733)
<b>Net Cost of Services</b>	<b>30,730</b>	<b>17,483</b>	<b>5,436</b>	<b>53,649</b>
<b>Other Income and Expenditure from the Expenditure and Funding Analysis</b>	<b>39,980</b>	<b>5,055</b>	<b>(2,888)</b>	<b>42,147</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>22,538</b>	<b>2,548</b>	<b>95,796</b>

## Note 47 Expenditure & Funding Analysed by Nature

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

<b>Expenditure &amp; Income Analysed by Nature</b>		
	<b>2018/19 £000</b>	<b>2019/20 £000</b>
<b>Expenditure</b>		
Employees	157,520	149,189
Other Service Expenditure	244,276	238,053
Depreciation and other Capital Charges	95,567	52,883
Interest Payments	5,124	6,127
Precepts and Levies	134	140
<b>Total Expenditure</b>	<b>502,621</b>	<b>446,392</b>
<b>Income</b>		
Government Grants and Contributions	(259,739)	(249,735)
Income from Council Tax and Non Domestic Rates	(70,253)	(72,729)
Interest and Investment Income	(749)	(633)
Fees, Charges and Other Service Income	(75,645)	(70,656)
<b>Total Income</b>	<b>(406,386)</b>	<b>(393,753)</b>
<b>Deficit on the Provision of Services</b>	<b>96,235</b>	<b>52,639</b>

# 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.

2018/19		2019/20		
£000		£000	£000	£000
Total		Council Tax	Business Rates	Total
	<b>Income</b>			
(64,561)	Council Tax receivable	(69,475)	0	(69,475)
(37,737)	Business Rates receivable	0	(36,469)	(36,469)
(102,298)	<b>Total Income</b>	<b>(69,475)</b>	<b>(36,469)</b>	<b>(105,944)</b>
	<b>Expenditure</b>			
	<b>Precepts and Demands:</b>			
51,894	Middlesbrough Council	55,285	0	55,285
7,503	Cleveland Police and Crime Commissioner	8,420	0	8,420
2,490	Cleveland Fire Authority	2,600	0	2,600
	<b>Business Rates</b>			
17,672	Payments to Central Government	0	17,807	17,807
353	Payments to Cleveland Fire Authority	0	356	356
17,319	Payments to Middlesbrough Council	0	17,451	17,451
173	Costs of Collection	0	172	172
	<b>Bad &amp; Doubtful Debts</b>			
275	Write Offs	(13)	187	174
2,011	Provision for Bad Debts	2,945	1,235	4,180
1,117	Provision for Appeals	0	(320)	(320)
100,807	<b>Total Expenditure</b>	<b>69,237</b>	<b>36,888</b>	<b>106,125</b>
	<b>Contributions towards previous year's estimate</b>			
(1,718)	Collection Fund Deficit / (Surplus)	728	(490)	238
(3,209)	<b>Deficit / (Surplus) for the Year</b>	<b>490</b>	<b>(71)</b>	<b>419</b>
	<b>COLLECTION FUND BALANCE</b>			
2,035	Balance brought forward at 1 April	(815)	(359)	(1,174)
(3,209)	Deficit / (Surplus) for the year (as above)	490	(71)	419
(1,174)	<b>Balance carried forward at 31 March</b>	<b>(325)</b>	<b>(430)</b>	<b>(755)</b>
	<b>Allocated to:</b>			
(859)	Middlesbrough Council	(271)	(211)	(482)
(99)	Cleveland Police and Crime Commissioner	(41)	0	(41)
(37)	Cleveland Fire Authority	(13)	(4)	(17)
(179)	Central Government	0	(215)	(215)
(1,174)		<b>(325)</b>	<b>(430)</b>	<b>(755)</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*	38	+5/9	35	21
A	17,258	+6/9	18,926	11,505
B	7,789	+7/9	9,966	6,058
C	8,829	+8/9	12,910	7,848
D	4,531	+9/9	7,453	4,531
E	2,118	+11/9	4,258	2,589
F	758	+13/9	1,801	1,095
G	479	+15/9	1,313	798
H	30	+18/9	99	60
	<b>41,830</b>		<b>56,761</b>	<b>34,505</b>
Less: Adjustments for assumed non-collection based on budgets assumption of 97.4% collection rate			(1,476)	(897)
<b>Total</b>			<b>55,285</b>	<b>33,608</b>

A\* - Band A properties receiving Disabled Relief

The average Council Tax for band D dwellings for Middlesbrough Council was £1,644.99

### 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 2020 was £103,290,803 (£104,090,938) at 31 March 2019) and the national non-domestic multiplier for the year was 50.4p (49.3p in 2018/19).

### 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:

2018/19 £000		2019/20 £000
(611)	Middlesbrough Council	(469)
(88)	Cleveland Police and Crime Commissioner	(71)
(29)	Cleveland Fire Authority	(22)
<b>(728)</b>	<b>Total Deficit / (Surplus)</b>	<b>(562)</b>

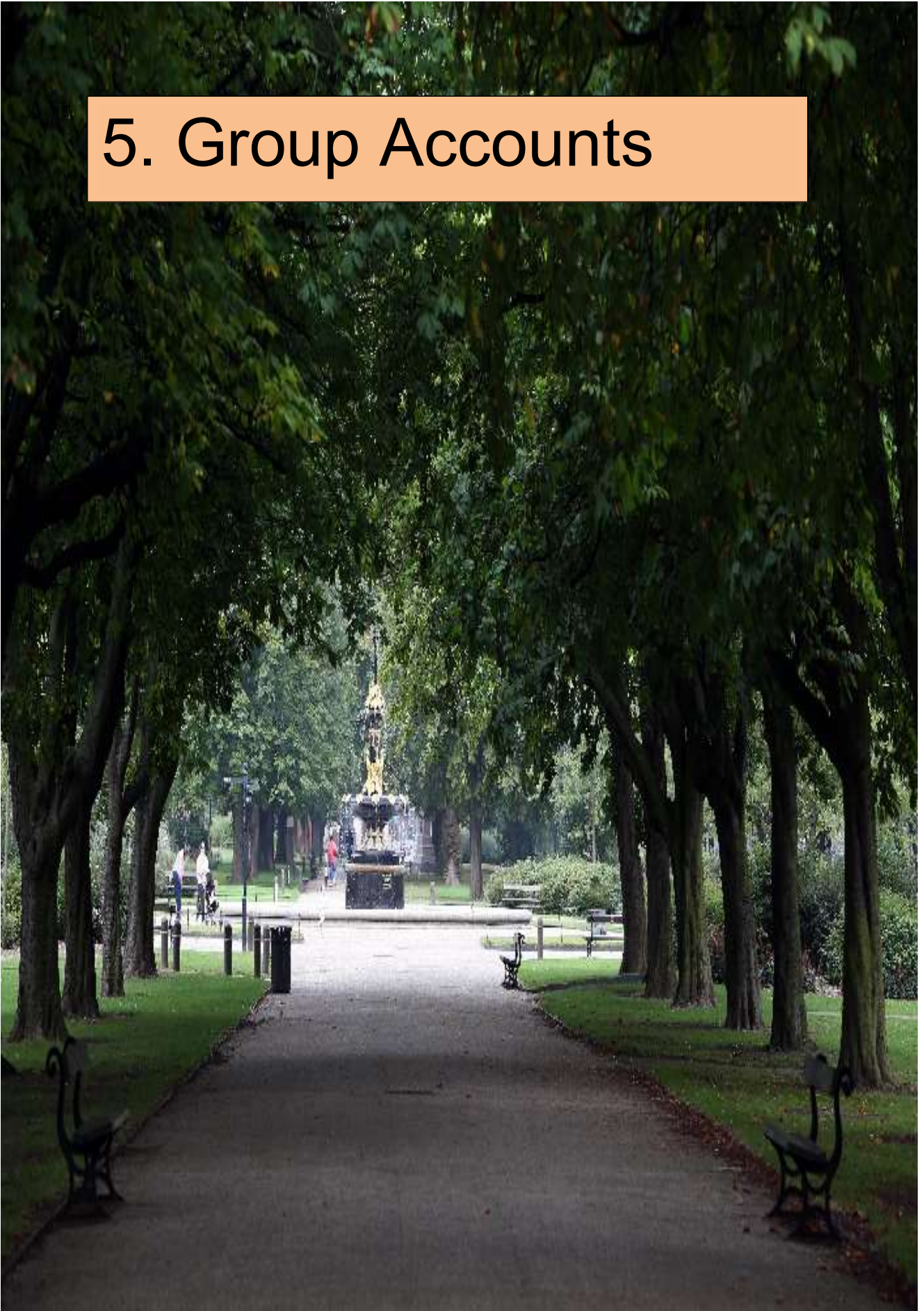
### Note 4 Council Tax and Business Rates Provisions

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 2020. This is the fourth year of this provision.

	£000
Opening Balance as at 1 <sup>st</sup> April 2019	5,281
Changes against the provision for appeals	(796)
Changes in the provision for appeals	475
<b>Closing balance as at 31<sup>st</sup> March 2020</b>	<b>4,960</b>

## 5. Group Accounts



*Albert Park Fountain*

## Group Accounts

The 2019/20 Local Authority Code of Practice requires all local authorities to consider their relationships with associated companies, strategic partnerships, joint ventures, and any other service delivery vehicles and to produce Group Accounts & Financial Statements where a significant exposure to economic benefits or financial risks can be established. This may lead to assets, liabilities, income and expenditure that impact on the Council's operations sitting outside of the Council's core financial statements.

Work has been undertaken to document all relevant entities connected with the Council and their financial relationship. Following the Chartered Institute of Public Finance and Accountancy guidance on Group Accounts, it has been established that the Council has a group relationship with one body, Middlesbrough Development Company (MDC). Although there are some other entities with which the Council has an interest, apart from MDC, including a small investment in Tees Valley, Veritau – the Council's internal audit provider. These are all considered minor interests from a financial perspective.

Middlesbrough Development Company is a subsidiary company (limited by guarantee) which was created by the Council in February 2019 to influence housing supply and regeneration within the Town. Initially called MHome Ltd, the company was rebranded following the local elections of May 2019.

The Development Company works in partnership with public and private sector organisations to deliver new residential and commercial investment into Middlesbrough to achieve regeneration and economic growth goals and to improve the quality of life for Middlesbrough residents. The company is working on a variety of projects that will help to regenerate previously under used urban areas throughout the Town, breathing new life into Middlesbrough Communities.

During the 2019/20 financial year, MDC was involved in the early stages of one major project at Tollesby Shops and were in the process of acquiring the site on Rievaulx Drive in Tollesby. The existing buildings, which had been empty and in a dilapidated condition will be demolished and the site cleared. MDC have prepared an exciting proposal for the redevelopment of the site that involves both residential and commercial units. The Council has approved allocation to MDC of almost £4m of S106 grant funding for the project. The company had drawdown £0.7m in 2019/20 with the aim of using this to acquire the site from the existing landlord and demolish the buildings. Only a small proportion of this though had been spent (£55k) at 31<sup>st</sup> March 2020 as the demolition had been delayed by the on-set of the Covid-19 pandemic.

The future aim is for MDC to pay an annual dividend based on its trading profits and for this new income stream to be a part savings strategy to reduce the budget gap on the Council's medium term financial plan, as well as being a key part of its regeneration approach.

During 2020/21 and beyond MDC intends to put forward a number of different initiatives based around its core aims. The intent is for these to be funded by a combination of partnership grant funding and prudential borrowing from the Council. All the projects needed approval by the Council's Executive before they can proceed. However, it will only take a small number of projects before the Council will need to prepare group financial statements to ensure that the assets and liabilities are transparent within the Council's finances.

*Artists impression of completed Tollesby Shop project below*



GRADON ARCHITECTURE



# 6. Teesside Pension Fund Accounts and Notes



*MIMA and the Bottle of Notes*

## Notes to the Pension Fund Accounts

<b>Note</b>	<b>Description</b>	<b>Page</b>
	Description of Teesside Pension Fund	98
	Teesside Pension Fund Account and Net Asset Statement	100
<b>1</b>	Basis of Preparation	101
<b>2</b>	Accounting Standards issued not yet Adopted	101
<b>3</b>	Summary of Significant Accounting Policies	101
<b>4</b>	Critical Judgements, Sensitivities and Accounting Estimates	105
<b>5</b>	Assumptions made about the Future and other Major Sources of Estimation Uncertainty	105
<b>6</b>	Contributions	106
<b>7</b>	Benefits Payable	106
<b>8</b>	Transfers in from Other Pensions Funds	107
<b>9</b>	Other Income	107
<b>10</b>	Payments to and on account of leavers	107
<b>11</b>	Management Expenses	108
<b>12</b>	Investment Income	108
<b>13</b>	Investment Assets	109
<b>14</b>	Financial Instruments	114
<b>15</b>	Actuarial Valuations	121
<b>16</b>	Current Assets	122
<b>17</b>	Current Liabilities	122
<b>18</b>	Additional Voluntary Contribution (AVC's)	123
<b>19</b>	Related Party Transactions	123
<b>20</b>	External Audit Costs	123
<b>21</b>	Senior Employees' Remuneration	124
<b>22</b>	Events after the Balance Sheet Date	124
	The Compliance Statement	125

## 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 together with one representative chosen from the other scheme employers), and employee representatives (from relevant Trade Unions) Representatives and makes decisions without reference to the 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, and in some circumstances payment of benefits to those individual's dependants collectively; 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 £3.74 billion. The funding policy aims to ensure that the assets held by the scheme are adequate to meet the future liabilities (members' pensions and lump sums) 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 Fund's 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 2020, the Fund continued to pay more in benefits than it received in contributions as more members are drawing pensions. Net withdrawal of funds were £55.4 million (2018 £57.9 million). During the year the overall value of the Fund fell by £349.6 million to £3.74 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 increase in all categories of members: active members, members who have deferred rights and those who are drawing pensions.

<b>Membership of the Fund</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Active	22,637	23,791	23,295	22,724	<b>23,438</b>
Deferred	22,453	22,861	23,243	23,361	<b>23,488</b>
Pensioner	21,699	22,177	22,757	23,983	<b>24,651</b>
<b>Total</b>	<b>66,789</b>	<b>68,829</b>	<b>69,295</b>	<b>70,068</b>	<b>71,577</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 2019	<b>22,724</b>	<b>23,361</b>	<b>20,943</b>	<b>3,040</b>	<b>70,068</b>
Adjustments	(51)	139	(148)	15	<b>(45)</b>
New Members	4,013	1,154	1,415	246	<b>6,828</b>
Change in Status	(1,017)	(932)	(160)	0	<b>(2,109)</b>
Leavers	(2,231)	(234)	(512)	(188)	<b>(3,165)</b>
At 31 March 2020	<b>23,348</b>	<b>23,488</b>	<b>21,538</b>	<b>3,113</b>	<b>71,577</b>
% of Total Membership	<b>32.7%</b>	<b>32.8%</b>	<b>30.1%</b>	<b>4.4%</b>	<b>100.0%</b>

During the year we had 19 new employers and 4 left the fund which means as at year end there were 169 employers in the Fund. The new employers were as follows: 11 were scheduled employers and 8 were admitted bodies. 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 out sourcing to the private sector.

## Teesside Pension Fund Statement of Accounts

Fund Accounts for the year ended 31 March 2020

2018/19			2019/20
£000		Note	£000
	<b>Dealings with members, employers and others directly involved in the Fund</b>		
(94,529)	Contributions	6	(99,421)
(4,972)	Transfers in from other pension funds	8	(8,546)
(4,656)	Other income	9	(3,985)
(104,157)	<b>Total Income from Members</b>		(111,952)
141,597	Benefits payable	7	146,259
12,194	Payments to and on account of leavers	10	13,683
153,791	<b>Total Expenditure to Members</b>		159,942
49,634	<b>Net / withdrawals from dealings with members</b>		47,990
8,266	Management expenses	11, 20	7,455
57,900	<b>Net withdrawals including fund management expenses</b>		55,445
	<b>Returns on investment</b>		
(55,311)	Investment income	12	(40,980)
(194,232)	Profits and losses on disposal of investments and changes in the market value of investments	13	335,160
(249,543)	<b>Net returns on investment</b>		294,180
(191,643)	<b>Net (increase) in the net assets available for benefits during the year</b>		349,625
3,896,452	<b>Net assets of the scheme as at 1 April</b>	14	4,088,095
4,088,095	<b>Net assets of the scheme as at 31 March</b>	14	3,738,470
2018/19	<b>Net Assets Statement as at 31 March</b>		2019/20
4,083,229	Investments Assets	13	3,746,225
10,013	Current Assets	16	9,294
(5,147)	Current liabilities	17	(17,049)
4,088,095	<b>Net assets of the Fund at 31 March</b>	14	3,738,470

## Notes to Teesside Pension Fund Accounts

### Note 1 Basis of Preparation

The statement of accounts summarises the Fund's transactions for the 2019/20 financial year and its position as at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, 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 issued but not yet been adopted

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted:

- 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 no recognition for low-value and short-term leases). CIPFA/LASAAC have however deferred implementation of IFRS16 for local government to 1 April 2021 due to the impact of Covid-19.
- IAS 19 Employee Benefits will require the remeasurement of the net pension asset/liability following plan amendments, curtailments or settlements to be used to determine current service cost and net interest for the remainder of the year after the change to the plan. The updating of these assumptions only applies to changes from 1st April 2020 and, since this could result in positive, negative or no movement in the net pension liability, no prediction can be made of the possible accounting impact

### 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 2020.

### **Net Assets Statement**

#### **Financial Assets**

Financial assets are included in the net assets statement on a fair value basis as at 31st March 2020. 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 2020, 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 2020. 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 or 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 13.

## **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).

## 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 31st March 2020 was £26,789,474 (£9,920,795 at 31st March 2019).

### 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 £87.57 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	Unobservable market values amount to £3,230 billion and are relating to infrastructure, real estate, and pooled equity vehicles

	listed and as such there is a degree of estimation involved in the valuation.	
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 (8.01%) in the value of directly held property £22.3 million, on a fair basis of £278.5 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.

		2018/19	2019/20
		£000	£000
Employers	Normal	(66,290)	(68,491)
	Additional Contributions	(23)	(12)
	Deficit Recovery Contributions	(1,025)	(1,004)
Members	Normal	(27,191)	(29,914)
<b>Total</b>		<b>(94,529)</b>	<b>(99,421)</b>

### Analysis of Total Contributions

	2018/19	2019/20
	£000	£000
Administering Authority – Middlesbrough Council	(14,583)	(14,925)
Scheduled Bodies	(64,709)	(71,009)
Admitted Bodies	(15,237)	(13,487)
<b>Total</b>	<b>(94,529)</b>	<b>(99,421)</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.

	2018/19	2019/20
	£000	£000
Pensions	113,219	119,302
Commutations and lump sum retirement benefits	25,463	24,257
Lump sum death benefits	2,915	2,700
<b>Total</b>	<b>141,597</b>	<b>146,259</b>

## Analysis of Total Benefits

	2018/19	2019/20
	£000	£000
Administering Authority – Middlesbrough Council	23,482	24,275
Scheduled Bodies	86,096	87,288
Admitted Bodies	32,019	34,696
<b>Total</b>	<b>141,597</b>	<b>146,259</b>

## Note 8 Transfers in from Other Pension Funds

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

	2018/19	2019/20
	£000	£000
Individual transfers in from other schemes	(4,972)	(8,546)
<b>Total</b>	<b>(4,972)</b>	<b>(8,546)</b>

## Note 9 Other Income

	2018/19	2019/20
	£000	£000
Capital Costs of Early Retirements	(4,075)	(3,982)
Other income	(581)	(3)
<b>Total</b>	<b>(4,656)</b>	<b>(3,985)</b>

## Note 10 Payments to and on account of leavers

	2018/19	2019/20
	£000	£000
Refunds to members leaving scheme	284	309
Payments for members joining state scheme	200	95
Individual transfers to other schemes	11,710	13,279
<b>Total</b>	<b>12,194</b>	<b>13,683</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.

	2018/19	2019/20
	£000	£000
Administrative costs	1,692	2,185
Investment management expenses	5,314	1,480
Oversight and governance costs	1,238	3,768
<b>Total</b>	<b>8,244</b>	<b>7,433</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.

	2018/19	2019/20
	£000	£000
Management fees	2,563	840
Custody fees	21	14
Transaction costs	1,959	120
Loans & investment support service charges	771	506
<b>Total</b>	<b>5,314</b>	<b>1,480</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.

	2018/19	2019/20
	£000	£000
Income from equities	(31,642)	(1,511)
Income from pooled investment vehicles	(3,595)	(19,253)
Other Investment Income	(77)	0
Net rents from properties (see note below)	(15,414)	(15,682)
Interest on cash deposits	(4,583)	(4,534)
<b>Total</b>	<b>(55,311)</b>	<b>(40,980)</b>

### Rental Income and Property Expenses

	2018/19	2019/20
	£000	£000
Gross Rental income	(15,270)	(15,870)
Property Expense / (Income)	(144)	188
<b>Net Rents from Properties</b>	<b>(15,414)</b>	<b>(15,682)</b>

## Note 13 Investment Assets

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

2019/20	Value at 1 April 2019	Purchases at Cost	Sale Proceeds	Change in Market Value	Value at 31 March 2020
	£000	£000	£000	£000	£000
Equities	31,495	0	(32,613)	1,207	89
Pooled Investment Vehicles	3,158,652	166,206	(115,303)	(308,231)	2,901,324
Pooled Property Investments	50,121	13,344	(6,445)	(5,886)	51,134
Properties	300,700	0	0	(22,250)	278,450
	<b>3,540,968</b>	<b>179,550</b>	<b>(154,361)</b>	<b>(335,160)</b>	<b>3,230,997</b>
Cash Deposits	527,454				501,295
Other Investment Balances	14,807				13,933
<b>Net Investment assets</b>	<b>4,083,229</b>				<b>3,746,225</b>

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
Bonds	0	0	0	0	0
Equities	2,232,575	18,925	(2,405,369)	185,364	31,495
Pooled Investment Vehicles	839,927	3,561,141	(1,250,275)	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>194,232</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>

### 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 £309,789,238 and unrealised loss was £331,857,885. Prior year realised profit was £1,131,177,145 and unrealised loss was £936,945,685.

### 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 £119,666 (2018/2019 £1,959,054). 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 has moved during the course of the year from being mainly managed in-house to being mainly managed externally. UK equities are managed through Border to Coast, overseas equities are predominantly managed passively through State Street Global Advisers and the direct property portfolio continues to be managed by CBRE Limited.

- For 2019/20 the value at 31 March 2020 of the direct property portfolio was : £278,450,000
- For 2018/19 the value at 31 March 2019 of the direct property portfolio was : £300,700,000

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

The following investments represent more than 5% of the net assets of the scheme.

Security	Market Value 31 March 2019	% of net assets of the scheme	Market Value 31 March 2020	% of net assets of the scheme
	£'000	%	£'000	%
Border to Coast PE Overseas Dev Mkts	206,925	5.07%	216,556	5.80%
Border to Coast PE UK Listed Equity	1,225,311	30.0%	1,023,645	27.42%
SSGA MPF Pacific Basin Ex-Japan Index	366,254	8.97%	302,041	8.09%
SSGA MPF Japan Equity Index	233,612	5.72%	228,691	6.13%
SSGA MPF North America Equity Index Sub Fund	640,191	15.68%	558,226	14.95%
SSGA MPF Euro Ex UK Equity Index Sub Fund	373,959	9.16%	344,340	9.22%

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 2019	% of asset class	Market Value 31 March 2020	% of asset class
	£'000		£'000	
<b>UK Equities</b>				
Border to Coast UK L E-AA GBP	1,225,311	99.45%	1,023,645	99.99%
<b>Overseas Equities</b>				
Border to Coast OS DEV M-AA GBP	206,925	0.00%	216,556	13.13%
SSGA MPF Pacific Basin ex-Japan Index	366,254	22.25%	302,041	18.31%
SSGA MPF Japan Equity Index	233,612	14.19%	228,691	13.86%
SSGA MPF North America Equity Index Sub Fund	640,191	38.89%	558,226	33.83%
SSGA MPF Euro Ex UK Equity Index Sub Fund	373,959	22.71%	344,340	20.87%
<b>Alternatives – Private Equities</b>				
Crown Co Investment Opp II PLC	9,921	9.47%	17,081	38.94%
Pantheon Global Co-Investment Opportunities IV	0	0.00%	12,581	28.68%

Crown Growth Global Opportunities III	0	0.00%	7,275	16.58%
<b>Alternatives – Infrastructure</b>				
ACIF Infrastructure	10,483	10.01%	13,665	12.31%
Innisfree PFI Continuation Fund	9,644	9.21%	9,949	8.96%
Innisfree PFI Secondary Fund 2	7,710	7.36%	8,473	7.63%
JP Morgan IIF UK I LP	0	0.00%	20,162	18.16%
Ancala Infrastructure Fund II	0	0.00%	14,669	13.21%
Gresham House BSI Infrastructure LP	0	0.00%	13,036	11.74%
<b>Alternatives – Other Alternatives</b>				
Amedeo Air Four Plus Ltd	9,000	8.59%	3,900	5.35%
Darwin Leisure Development Fund – Class D	0	0.00%	16,787	23.03%
Darwin Leisure Prop Units - Class C	20,577	19.64%	22,108	30.33%
Darwin Bereavement Services Fund - Class B	0	0.00%	15,164	20.80%
Hearthstone Residential Fund 1	0	0.00%	7,704	10.57%
Gresham House BSI Housing Fund LP	0	0.00%	7,221	9.91%
<b>Direct Property</b>				
Doncaster (Omega Boulevard)	23,850	6.80%	24,350	8.74%
Exeter (The Meridian Centre)	22,100	6.30%	18,000	6.46%
Birmingham (Bromford Central)	17,100	4.87%	17,350	6.23%
Gateshead (Team Valley Trading Estate)	16,850	4.80%	16,950	6.09%
Rugby (Valley Park)	15,500	4.42%	15,500	5.57%
Cheltenham (Fosse Way)	0	0.00%	14,250	5.12%
<b>Property Unit Trusts</b>				
Standard Life Investments European Property Growth Fund	21,243	6.06%	22,459	43.92%
Royal London Property Investment	0	0.00%	10,684	20.89%
LAMIT - Local Authorities Property Fund	0	0.00%	4,151	8.12%
Hermes Property	0	0.00%	4,452	8.71%
Threadneedle Property	0	0.00%	3,602	7.04%
Legal and General Managed Property Fund	0	0.00%	5,787	11.32%

## Geographical Analysis of Investments

	As at 31/03/19		As at 31/03/20	
	£000	%	£000	%
United Kingdom	1,645,949	57%	1,462,625	45%
United States	732,996	17%	712,544	22%
Asia Pacific Ex Japan	459,809	0%	367,008	11%
Europe Ex UK	447,090	0%	438,465	14%
Japan	254,305	7%	250,347	8%
Others	819	5%	8	0%
<b>Total</b>	<b>3,540,968</b>	<b>100.00%</b>	<b>3,230,997</b>	<b>100%</b>



## Equities

	As at 31/03/19	As at 31/03/20
	£000	£000
UK quoted	17	81
Overseas quoted	31,478	8
<b>Total</b>	<b>31,495</b>	<b>89</b>

## Pooled Investment Vehicles and Properties

	As at 31/03/19	As at 31/03/20
	£000	£000
UK Equity	1,232,124	1,023,645
Pooled Property investment Vehicle	50,121	51,134
Private Equity	0	43,871
Infrastructure	49,973	111,039
Other Alternative Investments	44,855	72,891
<b>UK Unit and Investment Trusts Total</b>	<b>1,377,073</b>	<b>1,302,580</b>
Overseas Equities	1,831,700	1,649,877
<b>Overseas Unit and Investment Trusts Total</b>	<b>1,831,700</b>	<b>1,649,877</b>
<b>Total</b>	<b>3,208,773</b>	<b>2,952,457</b>

## UK Properties

	As at 31/03/19	As at 31/03/20
	£000	£000
Freehold	232,625	215,275
Leasehold	68,075	63,175
<b>Total</b>	<b>300,700</b>	<b>278,450</b>

The properties were valued on the basis of Market Value as at 31 March 2020 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 31/03/19	As at 31/03/20
	£000	£000
Sterling Cash deposits	527,454	501,295

## Other Investment Balances

	As at 31/03/19	As at 31/03/20
	£000	£000
Cash deposits with custodian	13,147	13,147
Outstanding dividend entitlements	42	41
Interest due on cash deposits	1,618	745
<b>Total</b>	<b>14,807</b>	<b>13,933</b>

## Outstanding Commitments

As at 31 March 2020, the Fund had the following outstanding commitments.

	Initial Commitment	Capital Payments made	Outstanding commitments at 31 March 2020
<b>Infrastructure</b>			
	<b>GBP</b>	<b>GBP</b>	<b>GBP</b>
Border to Coast Infrastructure Series 1A	100,000,000	12,644,428	87,355,572
Capital Dynamics Clean Energy Infrastructure Fund VIII	20,000,000	8,064,270	11,935,730
Capital Dynamics Clean Energy Infrastructure Fund VIII - Co Investment	10,000,000	4,032,135	5,967,865
Gresham House	20,000,000	13,036,170	6,963,830
Innisfree PFI Continuation Fund	10,000,000	9,708,498	291,502
Innisfree PFI Secondary Fund 2	10,000,000	7,981,330	2,018,670
<b>Total GBP</b>	<b>170,000,000</b>	<b>55,466,831</b>	<b>114,533,169</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
Access Capital Infrastructure Fund	23,000,000	15,164,083	7,835,917
Ancala Infrastrucutre Fund II	23,000,000	6,683,272	16,316,728
Foresight Energy Infrastructure	17,000,000	1,079,167	15,920,833
<b>Total EUR</b>	<b>63,000,000</b>	<b>22,926,522</b>	<b>40,073,478</b>
	<b>USD</b>	<b>USD</b>	<b>USD</b>
Blackrock Global Energy & Power Infrastructure Fund III	25,000,000	5,556,533	19,443,467
Blackrock Global Renewable Power III	25,000,000	0	25,000,000
JP Morgan Infrastructure Investments Fund (IIF)	50,000,000	25,000,000	25,000,000
<b>Total USD</b>	<b>100,000,000</b>	<b>30,556,533</b>	<b>69,443,467</b>
<b>Other Alternatives</b>			
	<b>GBP</b>	<b>GBP</b>	<b>GBP</b>
Gresham House Housing Fund	20,000,000	7,221,369	12,778,631
Hearthstone Residential Fund 1	10,000,000	8,148,529	1,851,471
<b>Total GBP</b>	<b>30,000,000</b>	<b>15,369,898</b>	<b>14,630,102</b>
<b>Private Equity</b>			
	<b>GBP</b>	<b>GBP</b>	<b>GBP</b>
Border to Coast Private Equity Series 1A	100,000,000	9,559,837	90,440,163
Capital Dynamics LGPS Collective for Pools	10,000,000	0	10,000,000
<b>Total GBP</b>	<b>110,000,000</b>	<b>9,559,837</b>	<b>100,440,163</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
Access Capital Fund VIII Growth Buy-Out Europe	30,000,000	2,850,000	27,150,000
Crown Growth Global Opportunities III	30,000,000	8,100,000	21,900,000
Unigestion Direct II	25,000,000	0	25,000,000
Unigestion Secondary V	50,000,000	6,000,000	44,000,000
<b>Total EUR</b>	<b>135,000,000</b>	<b>16,950,000</b>	<b>118,050,000</b>

	USD	USD	USD
Blackrock Private Opportunities Fund IV	25,000,000	2,163,410	22,836,590
Crown Co-Investment Opportunities II	30,000,000	20,025,000	9,975,000
Crown Global Opportunities VII	40,000,000	6,080,000	33,920,000
Crown Secondaries Special Opportunities II	25,000,000	0	25,000,000
Pantheon Global Co Investment Opportunities IV	30,000,000	13,450,000	16,550,000
<b>Total USD</b>	<b>150,000,000</b>	<b>41,718,410</b>	<b>108,281,590</b>

## Note 14 Financial Instruments

### Net Gains and Losses on Financial Instruments

Financial Assets	2018/19	2019/20
	£000	£000
Fair Value through profit and loss account	(194,231)	355,160

### Fair Value of Financial Instruments

	Fair Value	Carrying Value	Fair Value	Carrying Value
	As at 31/03/19		As at 31/03/20	
	£000	£000	£000	£000
<b>Fair Value through profit and loss</b>				
Fixed Interest Securities				
Equities	31,495	31,495	89	89
Pooled Investments	3,158,652	3,158,652	2,901,324	2,901,324
Properties	350,821	350,821	329,584	329,584
	3,540,968	3,540,968	3,230,997	3,230,997
Loans and receivables	520,707	552,274	453,407	524,523
	4,061,675	4,093,242	3,684,404	3,755,520
<b>Financial Liabilities – Fair Value at Amortised Costs</b>				
Creditors	(5,147)	(5,147)	(17,049)	(17,049)
<b>Net Financial Assets of the Fund</b>	<b>4,056,528</b>	<b>4,088,095</b>	<b>3,667,355</b>	<b>3,738,471</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 2020	£000	£000	£000	£000
Financial assets at fair value through profit and loss account	89	1,379,763	1,572,695	2,952,547
Non-financial assets through profit and loss account	0	0	278,450	278,450
Loans and receivables	453,707	0	0	453,707
Financial Liabilities at amortised cost	(17,049)	0	0	(17,049)
<b>Total Financial Assets</b>	<b>436,747</b>	<b>1,379,763</b>	<b>1,851,145</b>	<b>3,667,655</b>

### 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	31,567	1,511,023	1,697,678	3,240,268
Non-financial assets through profit and loss account			300,700	300,700
Loans and receivables	520,707			520,707
Financial Liabilities at amortised cost	(5,147)			(5,147)
<b>Total Financial Assets</b>	<b>547,127</b>	<b>1,511,023</b>	<b>1,998,378</b>	<b>4,056,528</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 2020.

### Valuation of Financial Instruments carried at fair value – 31 March 2020

	Assessed valuation range (+/-)	Value at 31 March 2020	Value on increase	Value on decrease
		£000	£000	£000
Pooled Investments - Overseas Equity	11.03%	1,433,322	1,591,418	1,275,227
Pooled Investments – Private Equity	6.92%	26,789	28,643	24,935
Pooled Investments - Infrastructure	6.92%	77,117	82,454	71,781
Pooled Investments – Other Alternatives	6.92%	7,221	7,721	6,721
Pooled Investments – Property	8.01%	28,246	30,509	25,984
Direct Property	8.01%	278,450	300,754	256,146
<b>Total</b>		<b>1,851,145</b>	<b>2,041,497</b>	<b>1,660,794</b>

## 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>

## Reconciliation of Fair Value Measurements within level 3 during 2019/20

	Market Value 1 April 2019	Transfer between levels	Purchases	Sales	Unrealised Gains/ Losses	Realised Gains/ Losses	Market Value 31 March 2020
	£000	£000	£000	£000	£000	£000	£000
Pooled Investments – UK Equity	6,740	0	0	(6,870)	0	130	0
Pooled Investments – Overseas Equity	1,614,037	0	0	(75,000)	(105,175)	0	1,433,322
Pooled Investments – Private Equity	0	0	41,853	(5,871)	(9,193)	0	26,789
Pooled Investments – Infrastructure	42,753	0	63,654	(11,399)	(17,891)	0	77,117
Pooled Investments – Other Alternatives	7,221	0	0	0	0	0	7,221
Pooled Investments	26,927	0	0	(533)	1,852	0	28,246
Property	300,700	0	0	0	(22,250)	0	278,450
<b>Total</b>	<b>1,998,378</b>	<b>0</b>	<b>105,507</b>	<b>(99,973)</b>	<b>(153,197)</b>	<b>130</b>	<b>1,851,145</b>

## Reconciliation of Fair Value Measurements within level 3 during 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	262,690	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>

### 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 2019/2020 reporting period.

2019/20 Price Risk		Value as at 31/03/20	Change	Value on Increase	Value on Decrease
Asset Type	Region	£000	%	£000	£000
Equities	UK	81	15.71%	94	68
	Non UK	8	11.03%	9	7
	Total	89		103	75
Managed and Unitised Funds	UK	1,184,093	15.71%	1,370,114	998,072
	Non UK	1,768,365	11.03%	1,963,416	1,573,314
	Total	2,952,458		3,333,530	2,571,386
Property	UK	278,450	8.01%	300,754	356,146
<b>Total</b>		<b>3,230,997</b>		<b>3,634,386</b>	<b>2,827,608</b>

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>

### 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 cash. The Fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2019 is set out below:

Asset Type at 31 March	2018/19 £000	2019/20 £000
Cash and cash equivalents	527,454	501,295
Cash balances	14,807	13,933
<b>Total</b>	<b>542,261</b>	<b>515,228</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.

Asset Type		+ 25 BPS	- 25 BPS
Carrying value at 31 March 2020	£000	£000	£000
Cash and cash equivalents	501,295	1,253	(1,253)
Cash balances	13,933	35	(35)
<b>Total</b>	<b>515,228</b>	<b>1,288</b>	<b>(1,288)</b>

Asset Type		+ 25 BPS	- 25 BPS
Carrying value at 31 March 2019	£000	£000	£000
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>

### 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 Pension Fund Investment Panel is informed quarterly of the Fund's currency exposure. The following tables summarise the Fund's currency exposure as at 31 March 2019 and as at 31 March 2020, showing the



sensitivity analysis of foreign exchange movements.

Currency Risk 31 March 2020	Value £000	Change %	Value on Increase £000	Value on Decrease £000
Australian Dollar	8	10.90%	9	7
Euro	94,103	7.75%	101,936	86,810
Japanese Yen	250,347	12.25%	281,015	219,679
US Dollar	712,544	10.08%	784,368	640,720
Asia Pacific ex Japan basket	367,008	10.90%	407,012	327,004
Europe ex UK Basket	344,362	7.75%	371,050	317,674
<b>Total</b>	<b>1,768,372</b>		<b>1,944,850</b>	<b>1,591,894</b>

Currency Risk 31 March 2019	Value £000	Change %	Value on Increase £000	Value on Decrease £000
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>1,894,919</b>		<b>2,099,465</b>	<b>1,690,573</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 2020. 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 2019 using the 'Projected Unit Method', which produced the following results:

	31 March 2016	31 March 2019
	£ million	£ million
Net Liabilities	3,122	3,561
Assets	3,133	4,088
<b>Surplus</b>	<b>11</b>	<b>527</b>
<b>Funding Level</b>	<b>100%</b>	<b>115%</b>

### IAS19/26 Disclosure

Following the introduction of International Financial Reporting Standards (IFRS) the Fund is now required, under International Accounting Standard (IAS)26 "Accounting and Reporting by Retirement Benefit Plans" (January 1987), to disclose the actuarial present value of promised retirement benefits. The calculation of this disclosed amount must be determined in accordance with IAS19 "Employee Benefits" (February 1998).

An IAS19/26 valuation was carried out for the Fund as at 31st March 2019 by Aon Hewitt with the following results;

	Value as at 31 March 2018	Value as at 31 March 2019	Value as at 31 March 2020
	£ million	£ million	£ million
Present value of promised retirement benefit	4,685	5,039	5,182
Fair value of scheme assets	3,898	4,084	3,732
<b>Deficit</b>	<b>(967)</b>	<b>(955)</b>	<b>(1,450)</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 pensions legislation.

The actuarial assumptions used to calculate the promised value of benefits at 31 March 2020 were:

### Funding Assumptions

CPI increases	2.0%
Salary Increases	3.0%
Pension increases	2.0%
Discount rate	2.3%

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

Mortality Assumptions:	Years
Longevity at 65 for current pensioners:	
• Men	21.80
• Women	23.50
Longevity at 65 for future pensioners :	
• Men	23.20
• Women	25.30

## 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 2019	31 March 2020
	£000	£000
Other Debtors	1,360	1,218
Sundry Debtors	501	615
Contributions due in respect of	Employers	5,651
	Members	2,289
Capital cost of early retirements	5	181
Cash balances	206	103
<b>Total</b>	<b>10,013</b>	<b>9,294</b>

Analysis of Debtors	31 March 2019	31 March 2020
	£000	£000
Other local authorities	4,364	4,501
Other entities and individuals	5,443	4,690
Add cash balances	206	103
<b>Total</b>	<b>10,013</b>	<b>9,294</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 2019	31 March 2020
	£000	£000
Rents received in advance	(3,203)	(16,082)
Other payables	(1,944)	(967)
<b>Total</b>	<b>(5,147)</b>	<b>(17,049)</b>

Analysed by	31 March 2019	31 March 2020
	£000	£000
Other local authorities	(454)	(380)
Other entities and individuals	(4,693)	(16,669)
<b>Total</b>	<b>(5,147)</b>	<b>(17,049)</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 2019	31 March 2020
	£000	£000
With Profits and Deposit Accounts	4,610	4,626
Unit Linked Accounts	3,083	3,268
<b>Total</b>	<b>7,693</b>	<b>7,894</b>

The total value of AVC contributions paid to Prudential during the year, was £1,572,649 (2018/19 was £1,512,925).

## 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:

	2018/19	2019/20
	£000	£000
Support Service Recharges payable for the year	1,202	1,016

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 2019/20:

Employee's contributions of £195,598

Employer's contributions of £572,975

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.

	2018/19	2019/20
	£000	£000
Payable in respect of external audit	22	22
<b>Total</b>	<b>22</b>	<b>22</b>

## Note 21 Senior Employees' Remuneration

	2018/19 £000	2019/20 £000
Key Management Personnel		
Short Term Benefits	68	64
Post-Employment Benefits	10	10
<b>Total</b>	<b>78</b>	<b>74</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, including details of the Fund's commitment to investment pooling through its jointly owned pooling company Border to Coast.
- 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 March 2020, 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 XPS group (previously Kier Business Services Ltd) and administrator and the Pension Fund Committee 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 can be seen at:

[http://www.teespen.org.uk/documents/index.php?name=COMMUNICATION\\_FORM](http://www.teespen.org.uk/documents/index.php?name=COMMUNICATION_FORM)

## Teesside Pension Fund

### Statement of the Actuary for the year ended 31 March 2020

#### Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the 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 2019 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

#### Actuarial Position

1. The valuation as at 31 March 2019 showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2019 (of £4,088.1M) covering 115% 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 aggregate level of contributions required to be paid by participating employers with effect from 1 April 2020 was:

- 17.2% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date (the primary rate),

#### Plus

- an allowance of 0.9% of pay for McCloud and cost management – see paragraph 9 below,

#### Less

- 4.3% of pensionable pay to remove surplus in excess of a funding level of 105% over a recovery period of 22 years from 1 April 2020 (which together with the allowance above comprises the secondary rate).

3. In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in Aon's report dated 31 March 2020 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

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

Year from 1 April	% of pensionable pay	Plus total contribution amount (£M)
2020	14.0%	0.66
2021	14.1%	0.70
2022	14.2%	0.75

4. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate, stepping of contribution increases and individual employers' recovery



periods as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances.

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

Discount rate for periods in service	
Ongoing (scheduled body/subsumption) funding target *	4.45% p.a.
Ongoing (orphan body) funding target	4.45% p.a.
Discount rate for periods after leaving service	
Ongoing (scheduled body/subsumption) funding target *	4.45% p.a.
Ongoing (orphan body) funding target	3.00% p.a.
Rate of pay increases	3.10% p.a.
Rate of increase to pension accounts	2.10% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.10% p.a.

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

In addition, the discount rate for already orphaned liabilities (i.e. where there is no scheme employer responsible for funding those liabilities and employer has exited the Fund) was 1.3% 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 key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2P mortality tables with appropriate scaling factors applied based on an analysis of the Fund's pensioner mortality experience and a Fund membership postcode analysis using Aon's Demographic Horizons™ longevity model, and included an allowance for improvements based on the 2018 Continuous Mortality Investigation (CMI) Projections Model (CMI2018), with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 (for normal health retirements) were:

	Men	Women
Current pensioners aged 65 at the valuation date	21.8	23.4
Current active members aged 45 at the valuation date	23.1	25.2

7. The valuation results summarised in paragraphs 1 and 2 above are based on the financial position and market levels at the valuation date, 31 March 2019. As such the results do not make allowance for changes which have occurred subsequent to the valuation date, although we comment on changes in market conditions to 31 March 2020 in paragraph 10 below.
8. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2020 to 31 March 2023 were signed on 31 March 2020. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2022 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.
9. There are a number of uncertainties regarding the Scheme benefits and hence liabilities:
- **Increases to GMPs:**  
The 2019 valuation allows for the extension of the 'interim solution' for public service schemes to pay full inflationary increases on GMPs for those reaching State Pension Age (SPA) between 6 April 2016 and 5 April 2021. However, the Government is still exploring various options, including conversion of GMPs to Scheme benefits, in order to achieve equalisation for GMPs as required by the High Court judgement in the Lloyds Bank case.

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

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

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

The employer contributions certified from 1 April 2020 as part of the 2019 valuation include an allowance of 0.9% of pay in relation to the potential additional costs following the McCloud judgement / cost management process. This was a simplified approach which didn't take account of different employer membership profiles or funding targets and may be more or less than the assessed cost once the LGPS changes have been agreed depending upon the precise nature of the new final salary underpin, the members in scope, and how this affects the cost management process.

10. Since the valuation date, Fund asset returns have fallen short of the assumed return of 4.45% over the year to 31 March 2020, on its own leading to a reduction in the funding level. In addition, reduced expectations of future asset returns and falls in gilt yields have led to a decrease in the discount rates, further reducing funding levels and increasing the primary rate. The Actuary, in conjunction with the Administering Authority, will monitor the position on a regular basis and the Administering Authority will take action if it believes necessary.
11. This Statement has been prepared by the Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2019. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

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

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

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

<https://www.teespen.org.uk/documents/content/pdf/Valuation/TeessidePensionFund-2019ValuationReport.pdf>

Aon Hewitt Limited

**May 2020**

## Schedule of Contribution Rates

Net rate of contribution payable by each employing organisation for the period 1 April 2019 to 31 March 2020 under regulation 62 of the Local Government Pension Scheme Regulations 2013.

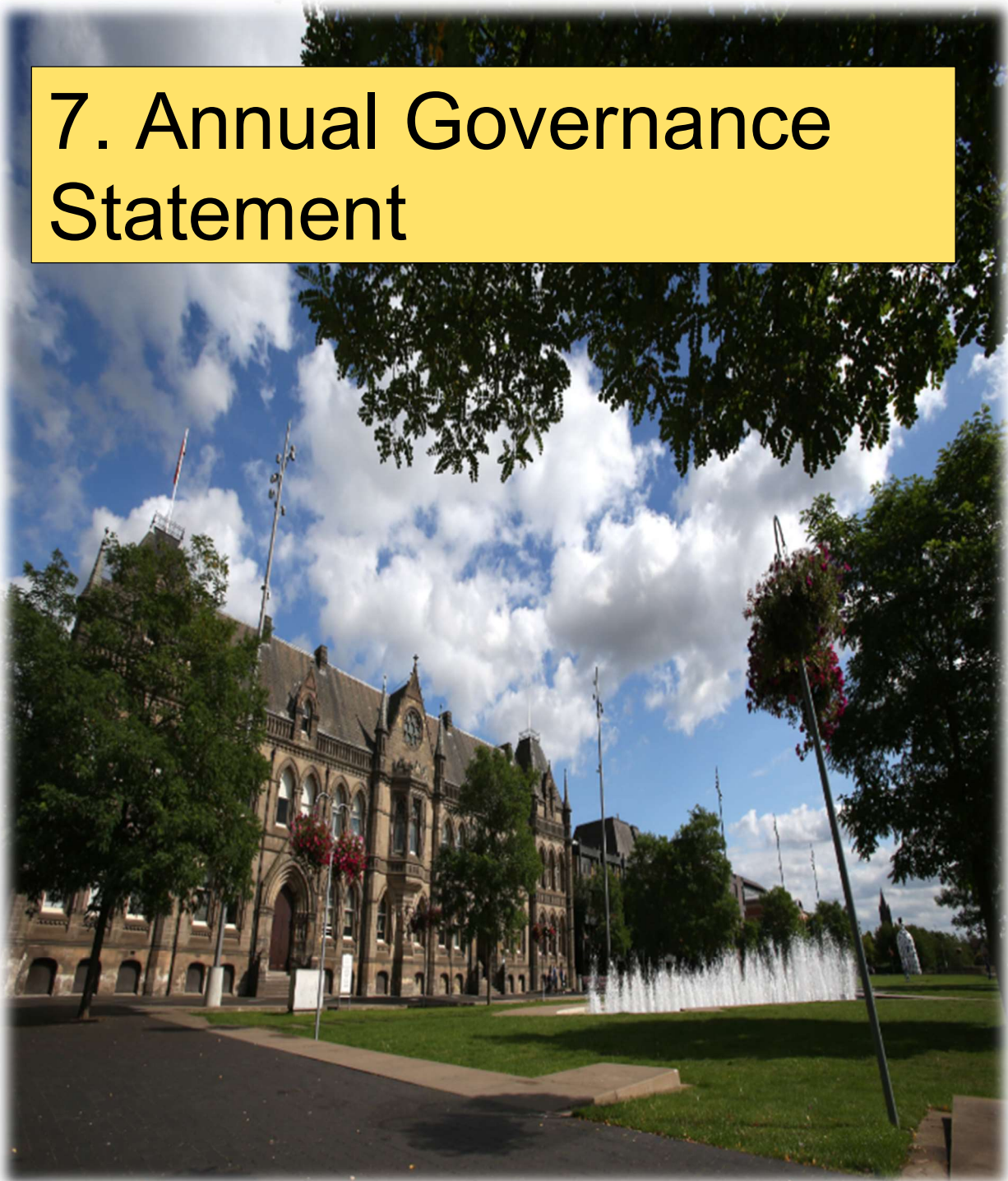
	Employers Rate %	Employees £000	Employers £000
All Saints Academy	17.5%	26	75
Ash Trees Academy	17.5%	56	174
Ayresome Primary School	17.5%	48	144
Badger Hill Academy	17.5%	5	17
Barnard Grove Primary School	17.5%	2	5
Beamish Museum Ltd	15.7%	154	389
Beyond Housing	17.2%	500	1,299
Billingham Town Council	17.3%	7	21
Brougham Primary School	17.5%	20	60
Business and Enterprise Commercial Ltd	12.7%	3	67
Caldicotes Primary Academy	17.5%	7	20
Care and Custody Health Ltd	17.0%	16	41
Care Quality Commission	17.9%	1,085	2,519
Carmel Education Trust	17.5%	4	0
Catcote Academy	17.5%	94	281
Caterlink - Ironstone	15.1%	0	0
Caterlink - RCBC - 00353	15.1%	8	20
Caterlink - St Oswalds	15.1%	3	8
Churchill's Outwood Grange	17.5%	7	19
Cleveland College of Art and Design	15.2%	140	260
Cleveland Fire Brigade	16.1%	223	600
Cleveland Fire Support Network	16.1%	3	6
Community Integrated Care	23.0%	5	12
Compass Contract Services Ltd	17.0%	41	102
Conyers School	17.5%	130	389
Creative Management Services Ltd	20.7%	3	11
Crooksbar Primary School	17.5%	11	36
Diocese of Middlesbrough Trustee	19.6%	9	17
Dyke House Academy	17.5%	71	208
Easterside Academy	17.5%	29	87
Ecocleen Services (Operations) Ltd	28.9%	0	1
Eden Academy Trust Limited	17.5%	31	91
Egglecliffe Primary School	17.5%	6	20
Emmanuel School Foundation	17.5%	61	182

Endeavour Academies Trust	17.5%	106	306
English Martyrs Educational Trust	17.5%	67	195
Enquire Learning Trust (Central)	17.5%	63	120
Eskdale Academy	17.5%	17	51
Extol Academy Trust (Eldon Grove)	17.5%	40	82
Fabrick Housing Group	16.0%	959	2,248
Fleet Factors RCBC	16.0%	1	2
Forward Swindon Ltd	Nil	0	382
Frederick Natrass Primary Academy	17.5%	15	46
Freebrough Academy	17.5%	19	57
Future Regeneration of Grangetown	22.2%	2	7
Galileo Multi Academy Trust	17.5%	197	585
Grangefield Academy	17.5%	37	109
Green Lane Primary Academy	17.5%	28	87
Guisborough Town Council	17.3%	6	16
Hardwick Green Primary Academy	17.5%	18	53
Harrow Gate Primary Academy	17.5%	29	88
Hartlepool Borough Council	15.5%	3,259	7,848
Hartlepool Care Services Ltd	22.5%	2	9
Hartlepool College of Further Education	15.2%	156	400
Hartlepool Sixth Form College	15.2%	21	54
Hemlington Hall Academy	17.5%	25	77
Hillsview Academy	17.5%	13	39
Holy Trinity Primary School	17.5%	15	44
Horizons Specialist Academy Trust	17.5%	196	573
Hutchinson's Catering	17.0%	1	4
Ian Ramsey Church of England Academy	17.5%	45	134
Ingleby Barwick Town Council	17.3%	2	4
Ingleby Manor Free School & Sixth Form	17.5%	36	105
James Cook Learning Trust	17.5%	85	252
Jesmond Gardens Primary School	17.5%	26	79
Kader Academy	17.5%	16	50
KGB Cleaning Ltd - LJS	14.8%	1	2
KTS Academy	17.5%	68	210
Legacy Learning Trust	17.5%	194	429
Liberata UK Ltd	Nil	41	0
Lockwood Parish Council	17.3%	1	3
Loftus Town Council	17.3%	2	5
Manor Community Academy	17.5%	53	161

Mellors Catering Services Ltd (Central)	21.2%	1	4
Mellors Catering Ltd - Dormanstown	21.2%	5	19
Mellors Catering Services Ltd (Normanby)	21.2%	3	9
Mellors English Martyrs	14.8%	12	31
Mellors Ironstone	18.0%	8	25
Mellors NPCAT	17.9%	50	159
Middlesbrough College	15.2%	400	990
Middlesbrough Council	15.3%	5,307	9,618
Mitie Cleveland Fire	17.0%	0	1
Nicholas Postgate Catholic Academy Trust	17.5%	507	1,488
NMRN Operations	17.0%	5	16
Normanby Primary School	17.5%	31	98
Northern Lights Learning Trust	17.5%	17	51
North Ormesby Primary Academy	17.5%	42	124
North Shore Academy	17.5%	17	53
Norton Primary Academy	17.5%	24	73
Nunthorpe Academy	17.5%	78	218
Nunthorpe Primary Academy	17.5%	14	42
Oak Tree Academy	17.5%	27	84
One Awards Limited	15.9%	32	77
One IT Services and Solutions Ltd	15.2%	54	108
One IT Services Ltd - Porter	17.0%	2	5
ONsite Building Trust	17.0%	3	9
Orian Solutions Ltd	17.0%	0	1
Ormesby Primary School	17.5%	14	44
Our Children 1st Academy Trust	17.5%	30	93
Our Lady & St Bede Catholic Academy	17.5%	44	132
Our Lady of Most Holy Rosary	17.5%	17	53
Outwood Academy Acklam	17.5%	66	200
Outwood Academy Bishopsgarth	17.5%	41	125
Outwood Academy Bydales	17.5%	31	95
Outwood Academy Normanby	17.5%	18	53
Outwood Academy Ormesby	17.5%	40	122
Outwood Academy Redcar	16.6%	30	89
Overfields Primary School	17.5%	20	60
Pentland Academy	17.5%	23	70
Police & Crime Commissioner for Cleveland	15.6%	86	164
Prince Regent Street trust	17.5%	64	190
Redcar and Cleveland Borough Council	16.0%	3,730	7,074
Riverdale Primary School	17.5%	64	136
River Tees Multi Academy Trust	17.5%	11	33
Robertson FM Ltd	14.9%	1	3

Rose Wood Academy	17.5%	21	63
Rosebrook Primary School	17.5%	42	130
Rye Hills Academy	16.6%	58	162
Saltburn Marske and New Marske Parish Council	17.3%	3	9
Skelton and Brotton Parish Council	17.3%	3	9
Skelton Primary School	17.5%	31	89
SLM Community Leisure Charitable Trust	16.0%	36	96
SLM Fitness & Health Ltd (MBC)	15.3%	4	10
SLM Fitness and Health Ltd	16.0%	2	6
SLM Food & Beverage Ltd (MBC)	15.3%	4	10
SLM Food and Beverage Ltd	16.0%	1	4
Sopra Steria Ltd	15.6%	273	653
South Tees Development Corporation	17.0%	40	77
St Joseph's Catholic Primary School	17.5%	19	60
St_Aidans Primary School	17.5%	16	48
St Bede's Catholic Academy	17.5%	13	40
St_Francis of Assisi	17.5%	13	39
St_Gregory's RC Academy	17.5%	46	112
St_Gregory's RC Academy	17.5%	19	57
St_John the Evangelist	17.5%	3	10
St_Joseph's R C Primary School	17.5%	4	12
St_Mark's Academy	17.5%	26	81
St_Mary's CE Primary School	17.5%	8	24
St_Michael's Catholic Academy	17.5%	42	92
St_Paul's R C Primary School	17.5%	4	13
St_Thomas of Canterbury MAT	17.5%	24	71
Stagecoach Transit	27.2%	2	173
Steel River Academy Trust	17.5%	59	107
Stockton Borough Council	15.7%	4,953	12,319
Stockton Riverside College	15.2%	332	814
Sunnyside Academy	17.5%	50	152
Tascor Services Ltd - PFI	18.0%	1	4
Tees Active Limited	18.2%	106	291
Tees Valley Collaborative Trust	17.5%	91	264
Tees Valley Combined Authority	15.9%	293	623
Tees Valley Community Asset Preservation Trust	17.0%	2	5
Tees Valley Education Trust	17.5%	85	250
Teesside Learning Trust	17.5%	60	169
Teesside University	14.4%	2,004	4,534
Teesville Primary School	17.5%	22	56
<b>Total Contributions 2019/20</b>		<b>29,915</b>	<b>69,507</b>

# 7. Annual Governance Statement



Middlesbrough Town Hall and Centre Square

## **Annual Governance Statement 2019/20**

### **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.

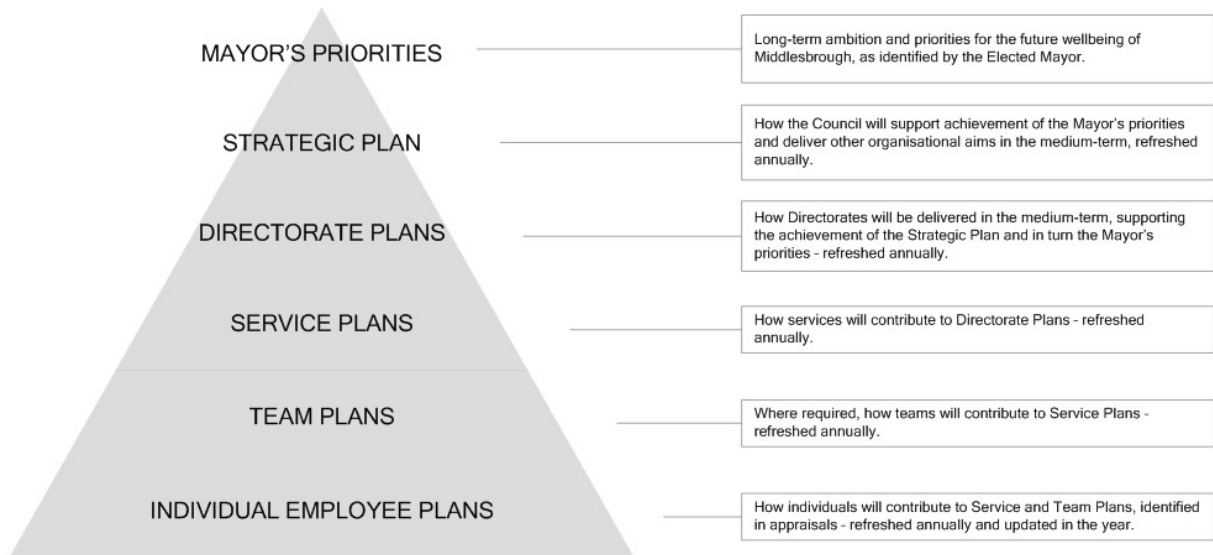
### **Structure of the AGS**

5. The AGS comprises the following sections:
  - an overview of the Council's governance arrangements;
  - progress made on governance during 2019/20;
  - issues that have arisen during 2019/20
  - a position statement against the Code of Corporate Governance; and
  - governance priorities for 2020/21.
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.



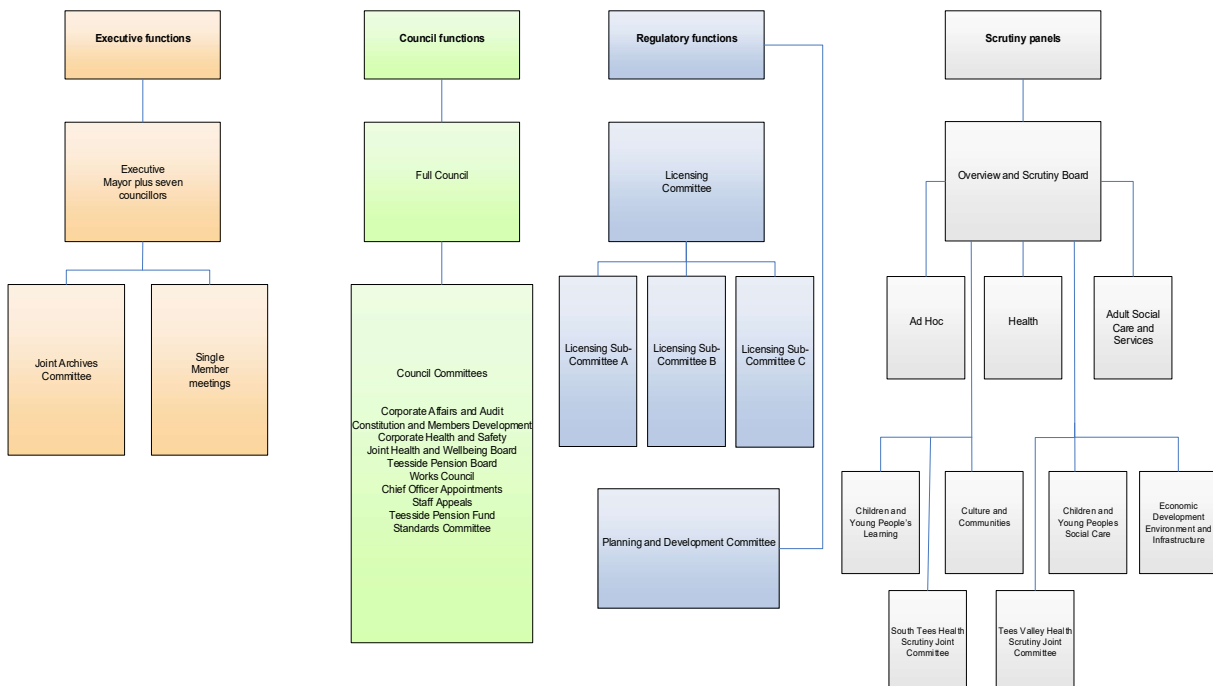
## The Council's governance arrangements

- The strategic vision for Middlesbrough was refreshed during 2019/20. Until January 2020 the vision was articulated in the [2025 Vision for Middlesbrough – Fairer, Safer, Stronger](#) document. This document was replaced in January by the priorities of the newly Elected Mayor of Middlesbrough.
- The [Strategic Plan](#) is the Council's overarching business plan for the medium-term, and is typically refreshed on an annual basis. The Strategic Plan was also refreshed in January 2020, responding to the revised mayoral priorities (which are articulated within it). There is a 'golden thread' which runs from this document through the rest of the Council's governance and policy frameworks.



## Roles and responsibilities

- The following diagram sets out the current Committee structure of the Council that was in place for 2019/20:



- 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 respective 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 2019/20**

#### **Implementing actions from the 2018/19 AGS**

11. The 2018/19 AGS outlined a range of actions that would be taken during 2019/20 to strengthen corporate governance. Progress on these is set out below.

<b>Action</b>	<b>Lead officer</b>	<b>Status</b>
Continue to engage in local and regional planning activities to ensure the Council identifies and addresses the governance implications of BREXIT.	Head of Strategy, Information and Governance	Complete to date but this remains an ongoing issue for the Council.
Deliver the member induction programme for all members and continue ongoing training around governance issues including risk and procurement.	Head of Democratic Services	Complete. Member induction undertaken during May and June 2019, followed by a member development programme. Risk training was delivered July 2019 and is an annual item on the member development programme.
Develop partnership governance guidance and put in place a central register of all significant partnerships.	Head of Strategy, Information and Governance	Complete. Policy approved by Executive in February 2020. Work to populate the central register will be delivered during 2020.
Introduce a revised members' enquiries process.		Complete. A revised process has been put in place that has resulted in improvement, however in line with the Council's commitment to continuous improvement work is ongoing to progress further changes in order to provide members with additional tools for casework management.
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.		Complete. The vision was embedded within the revised version of the Strategic Plan for the period 2020-2023, which was agreed by Council in January 2020.
Undertake a review of the Programme and Project Management (PPM) Framework.		Complete. The revised PPM policy was agreed by Executive in February 2020.

Action	Lead officer	Status
In conjunction with external audit undertake risk-based strength-testing of planned savings initiatives and the governance arrangements for these.	Internal Audit	This was not carried out – savings plans will be considered for review during 2020/21 as part of the Council's audit plan, with discussions held with its external auditor where appropriate.
Offer training on the Contract Management Framework to all contract managers by June 2019 and to all other managers during 2019/20.	Head of Strategic Commissioning and Procurement	Ongoing. Targeted training has been delivered to managers using the contract management system. Further training is proposed through 2020/21 as work is progressed to roll-out the system across the Council.
Continue to deliver the rolling review of the constitution by the Constitution and Member Development Committee during 2019/20.	Head of Legal Services	Ongoing. Work commenced during 2019/20 and will be progressed during 2020/21 by the Director of Legal and Governance Services, in place as the Council's Monitoring Officer since January 2020.
Put in place a scheme of sub-delegations where appropriate to further improve governance around officer delegated decisions.		
Delivery of masterclasses to managers on risk management, decision-making and continuous improvement.	Head of Strategy, Information and Governance	Completed.
Continue to review progress against agreed actions and take corrective action as necessary.	Heads of Service	Completed.

## Internal Audit during 2019/20

12. During 2019/20 Internal Audit has undertaken the following audits:

Audited System / Service	Assurance Opinion	Priority Actions		
		P1	P2	P3
Hot Topic - Communications: Protecting Brand and Reputation	Strong	0	0	0
Hot Topic - Workplace Culture: Discrimination & Staff Inequality	Strong	0	0	0
Project/Contract Management - Snow Centre and Southlands Demolition	Strong	0	0	0
S117 Follow Up	Strong	0	0	0
Beverly School	Strong	0	0	4
Hot Topic - Anti-Bribery and Anti-Corruption Compliance	Good	0	1	1
Events Management (Marketing, Health and Safety, Planning and Budgetary Control)	Good	0	1	2

Audited System / Service	Assurance Opinion	Priority Actions		
		P1	P2	P3
Berwick Hills Primary School	Good	0	2	0
Domestic Abuse Prevention	Moderate	0	6	1
Recruitment & Retention	Moderate	0	4	1
School Crossing Patrols	Moderate	0	4	1
Highways Inspection Management	Moderate	0	7	4
	<b>Total:</b>	<b>0</b>	<b>25</b>	<b>14</b>

13. The opinions used by Internal Audit during 2019/20 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 2019/20**

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 six times during 2019/20, and considered:
- the annual review of the local Code of Corporate Governance;
  - the Council's 2018/19 Statement of Accounts (including the last AGS);
  - the Internal Audit Charter, its annual report for 2018/19, its plan for 2019/20, in-year progress updates, and consultation on its plans for 2020/21;
  - 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 for 2017/18;
  - 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;
  - an urgent item from the Director of Legal and Governance to revise wording on voting on the budget;
  - a report giving an overview of the relationship between Legal Services and Children's Services;
  - terms of reference for a governance review;
  - the annual assurance report on health and safety arrangements;
  - an update on the Council's decision making processes;
  - a report on staff turnover;
  - an overview of its risk role, an overview of strategic risk management and the annual assurance report on risk management;
  - Estates Strategy – Asset disposals update;
  - an overview of business continuity arrangements for a Flu Pandemic;
  - the appointment of school governors;
  - a report on Councillors' access to information;
  - an annual assurance report on procurement and practices; and
  - a report on future provision of the internal audit service.

## **Overview and Scrutiny during 2019/20**

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 2019/20, scrutiny considered the following items that are relevant to corporate governance:
- Quarterly reports on delivery of the Strategic Plan;
  - new statutory guidance for overview and scrutiny: creating a challenge culture;
  - the Executive Forward Work Programme; and
  - the Council's provisional budget consultation results.
17. In addition OSB has considered two call-ins during 2019/20 relating to governance concerns in respect of the following decisions:
- the proposed acquisition of Homes England land at Middlehaven (NB call-in triggered during 2018/19 but heard on 4 April 2019); and
  - the proposed long-term lease of the Gresham site to Thirteen Group.
18. The decision in relation to Middlehaven was not referred back to the Executive. The decision relating to Gresham was referred back to the Executive for re-consideration. Executive decided to implement the decision without amendment.

## Other governance related events during 2019/20

### Revenue budget overspend

19. During 2019/20 the Council put in place a number of measures in response to predicted overspends identified during the year. These measures included:
- a vacancy control process overseen by the Corporate Management Team;
  - value for money checks against proposed expenditure of £5,000+ by the procurement team; and
  - strong controls over staff travel, the ordering of stationery and use of first class post.
20. A proposal to cease use of agency staff was made during Quarter Two, however that was subsequently deemed not to be feasible. The Council is continuing to minimise the use of agency staff where it is appropriate.
21. A number of measures were also put in place to support mitigation of the specific overspend within Children's Services. Despite these measures, the Council reported an overall year-end overspend of £6,591,000, which reflected the fact that there was an underspend in other parts of the Council that partially mitigated the total overspend in Children's Services of £7,226,000. Reserves were used to cover this overspend, reducing the Council's General Fund Reserve to the minimum level (£9.4m) recommended by the Section 151 Officer.

### Information Commissioner's Office Consensual Data Protection Audit

22. In July 2019 the Council requested a consensual audit from the Information Commissioner's Office (ICO) across three domains.
- governance and accountability;
  - security of personal data; and
  - requests for personal data and data portability.
23. The audit rated the Council as providing a 'reasonable' level of assurance (the second highest behind 'high') that the Council's arrangements are delivering data protection compliance across all three domains. Sixty recommendations were made by the ICO to reduce the Council's risk of non-compliance – four with urgent priority, 37 high and 19 medium. These recommendations were embedded within the delivery plan for the Council's Information Strategy and good progress has been made to implement them, although some actions have had timescales have had to be re-profiled as a result of the COVID-19 pandemic, generally relating to changes to physical access controls to and within the Central Campus. However it should be noted that during the pandemic access to buildings has been highly restricted, significantly reducing this risk.

### ILACS framework – inspection outcome

24. In December 2019 Ofsted completed an inspection of the Council's compliance with the Inspection of Local Authority Children's Services (ILACS) framework. The outcome of that inspection was a judgement across four categories:

Judgement	Grade
The impact of leaders on social work practice with children and families	Inadequate
The experiences and progress of children who need help and protection	Inadequate
The experiences and progress of children in care and care leavers	Inadequate
Overall effectiveness	Inadequate

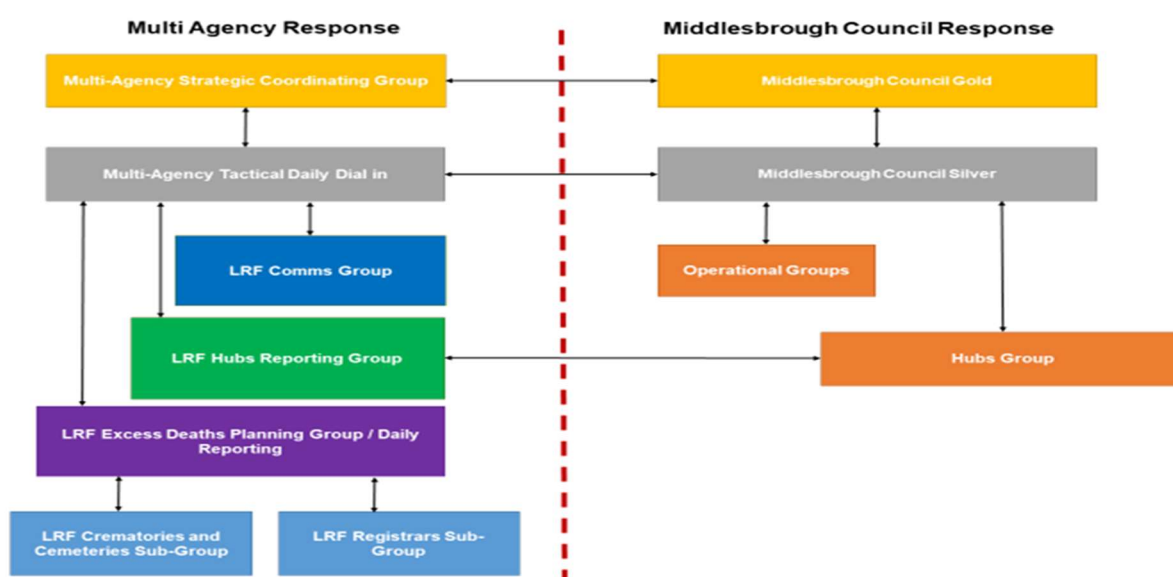
25. OFSTED uses a system of four grades in their judgements, Outstanding, Good, Requires Improvement and Inadequate. As such the Middlesbrough judgement is the lowest possible grading that can be received, and requires a timely and effective response from the Council. This was reported to Members, along with details of a 12 week improvement plan that has now been delivered with good progress

made. During that period the Council worked with the Department of Education (DfE), OFSTED and a DfE appointed Commissioner to deliver the plan and provide assurance around the longer term plans of the Council.

26. A report from the Commissioner released in June 2020, but partly covering the period of time within the scope of this AGS, stated that good progress has been made to date to respond to the challenges set out in the OFSTED report and at this stage the Commissioner believes the Council should retain its safeguarding services.

#### COVID-19 pandemic

27. During 2019/20 the Council and town began to experience the impact of the COVID-19 virus that was first reported to the World Health Organisation on 31 December 2019. On 16 March 2020, shortly before the end of the scope of this AGS, the Council invoked its Major Incident Plan and embedded business continuity structures within it to ensure an effective response was put in place to manage both the impact on the town and the impact on the Council's services. The response structure put in place is outlined below:



28. £878,000 of costs and lost income incurred up to 31 March 2020 was charged to the Council's allocation from the Government's emergency response fund grant.
29. Separate reports on the response to date have been submitted to Executive in June 2020 outlining decisions taken during the pandemic response. The 2020/21 AGS will contain a deeper review of the governance of response to and recovery from the pandemic and the financial challenges.

#### Internal Audit arrangements

30. During 2019/20 Tees Valley Audit and Assurance Service (TVAAS) ceased to deliver the Council's internal audit function. From 1 January 2020, the Council transferred its internal audit function to a new shared service company, Veritau Tees Valley Limited, of which it is a shareholder. This company is part of the Veritau Group which was established in 2009 by North Yorkshire County Council and City of York Council.

#### Redcar and Cleveland Borough Council Ransomware attack

31. In February 2020, one of the Council's neighbouring authorities was subject to a ransomware attack that impacted shared services delivered by Redcar and Cleveland Borough Council (RCBC) on the Council's behalf. The council immediately implemented a business continuity response and was able to relocate its services within half a day and also support RCBC's elements of those shared services.

## Middlesbrough Development Company activity during 2019/20

32. During 2018/19 the Council created MHome (its name changed to Middlesbrough Development Company during 2019/20), a Housing Delivery Vehicle (HDV) as a local authority trading wholly owned company limited by shares with the council as the sole shareholder. It was reported in the 2018/19 AGS. During 2019/20 the body has met 6 times.
33. It has taken the following significant decision since this year:
- £3.5m investment into redeveloping Tollesby Shops
34. During 2019/20 £0.65m was transferred to the HDV for the Tollesby Shops project. £55,000 of this was spent during the year, and £0.595m remained in balance at 31/3/2020. The balance was generally due to project delays and the impact of Covid-19. During 2020/21 the company's website will be developed further and information on meetings and decisions will start to be published where appropriate. The Council's 151 officer and the monitoring officer will receive all agendas, reports and minutes. Information on decisions made will also be reflected within the quarterly capital monitoring report to Members.

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

### **Self-assessment**

35. The Council has completed a position statement against its Code of Corporate Governance for the 2019/20 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.
36. The detailed position statement is appended to this AGS. In summary, the Council considers that it continues to demonstrate good governance in general terms, however it is clear that there are a range of governance challenges within Children's Services across the themes of the Code of Corporate Governance, as identified in the 2019 Ofsted inspection. Action to address these challenges has already been taken (as outlined above) and to ensure continuous improvement, a number of actions have been identified to further improve the approach in this and other governance areas during 2019/20, with these set out at the end of this statement.

### **Internal Audit opinion**

37. The work of internal audit is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). In respect of reporting, the relevant PSIAS standard (2450) states that the Chief Audit Executive (CAE)<sup>1</sup> should provide an annual report to the board<sup>2</sup>. The report should include:
- (a) details of the scope of the work undertaken and the time period to which the opinion refers (together with disclosure of any restrictions in the scope of that work)
  - (b) a summary of the audit work from which the opinion is derived (including details of the reliance placed on the work of other assurance bodies)
  - (c) an opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e., the control environment)
  - (d) disclosure of any qualifications to that opinion, together with the reasons for that qualification
  - (e) details of any issues which the CAE judges are of particular relevance to the preparation of the Annual Governance Statement

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<sup>1</sup> The Head of Internal Audit

<sup>2</sup> The PSIAS refers to the board. This is taken to be the Corporate Affairs and Audit Committee.



- (f) a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme.

38. Veritau uses four assurance opinion levels: substantial, reasonable, limited and no assurance. Based on the audit work completed, the overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating within the Council is that it provides **Reasonable Assurance**. This is the same level as 'good' assurance under the previous audit arrangements and the definitions given in paragraph 13 earlier and means that controls have remained stable during 2019/20.
39. Although a reasonable assurance opinion can be given, there are weaknesses in the control environment which have been identified in relation to audits completed during the year. Actions to address these issues have been agreed with management.
40. Whilst some of these weaknesses represent significant issues in relation to specific systems and service areas none of the weaknesses relate to the main financial systems and none are recommended for individual consideration as significant failings in the overall framework of governance, risk management and control, for inclusion in the 2019/20 Annual Governance Statement.
41. The opinion of reasonable assurance is qualified, for a number of reasons as set out below.
42. The majority of work completed during the year, on which the opinion is based, was carried out by the previous internal audit service, TVAAS. Veritau had no involvement in undertaking this work or the conclusions drawn.
43. The level of audit work completed during the year was much lower than expected. This was due to (i) lack of completion of work by TVAAS at the point Veritau took over internal audit services on 1 January 2020 (and requiring a reduced plan for the fourth quarter to be agreed); (ii) the impact of Covid-19 from March 2020 which resulted in work being unable to be progressed.
44. The internal audit work completed was undertaken before emergency measures were implemented as a result of the pandemic. These measures have resulted in a significant level of strain being placed on normal procedures and control arrangements. The level of impact is also changing as the situation develops. It is therefore not possible to quantify the additional risk arising from the current short term measures and the overall impact on the framework of governance, risk management and control.
45. The qualifications are a limitation on the scope of our opinion rather than a reflection of the Council's control environment. The qualification relating to Covid-19 is consistent with professional guidance from the Internal Audit Standards Advisory Board (IASAB)<sup>3</sup>, and reflects the approach that most Heads of Internal Audit will be taking when providing an opinion during the current pandemic.

### **External opinion**

46. To be provided in the final version of this document.

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<sup>3</sup> The IASAB 'exists to promote high quality internal audit across the UK public sector'.

## **Governance priorities for 2020/21**

47. The information above has been used to identify a number of improvement actions for 2020/21 to ensure continuous improvement in the Council's corporate governance. These are summarised in the following table.

<b>Issue</b>	<b>Action</b>	<b>Outcome(s)</b>	<b>Lead officer</b>	<b>deadline</b>
'No deal' BREXIT will pose a range of risks to the Council's strategic objectives.	Continue to engage in local and regional planning activities to ensure the Council identifies and addresses the governance implications of BREXIT.	Risks from a 'No deal' BREXIT are identified and mitigated wherever practicable at the local level.	Head of Strategy, Information and Governance	March 2021
Provision of a case management tool will support Councillors who wish to use such a tool to build community engagement in their areas and track cases.	Implement a case management tool to complement the revised member enquiries process for those Councillors who wish to use it.	Improved range of tools available to Councillors for case work management and community communications.		September 2020
Improved access to Council data.	Launch the Council's new open data site which will make published data more accessible.	The site will improve the public's ability to access data and access capability such as mapping of data where possible.		September 2020
The impact of COVID-19 and financial challenges experienced during 2019-20 must be reflected within the strategic plans of the organisation.	Refresh the Strategic Plan and Medium Term Financial Plan during 2020/21 to reflect the impact of COVID-19 on the Council and amend supporting policies as necessary.	Strategic Plan and the Medium Term Financial Plan reflect the priorities of the organisation and resources are aligned to those priorities and they are financially sustainable.	Head of Strategy, Information and Governance, Head of Financial Planning and Support	November 2020
Embed compliance with the Partnership Governance Policy by ensuring compliance with it.	Undertake population of the central partnerships register.	Centralised recording of strategic partnerships and their formal governance arrangements and powers where applicable.	Head of Strategy, Information and Governance	December 2020

Issue	Action	Outcome(s)	Lead officer	deadline
'No deal' BREXIT will pose a range of risks to the Council's strategic objectives.	Continue to engage in local and regional planning activities to ensure the Council identifies and addresses the governance implications of BREXIT.	Risks from a 'No deal' BREXIT are identified and mitigated wherever practicable at the local level.		March 2021
Provision of a case management tool will support Councillors who wish to use such a tool to build community engagement in their areas and track cases.	Implement a case management tool to complement the revised member enquiries process for those Councillors who wish to use it.	Improved range of tools available to Councillors for case work management and community communications.	Head of Strategy, Information and Governance	September 2020
Improved access to Council data.	Launch the Council's new open data site which will make published data more accessible.	The site will improve the public's ability to access data and access capability such as mapping of data where possible.		September 2020
Ensuring Members have the skills and knowledge to deliver their roles.	Refresh the Member Development framework to include delivery of training diversity and ethics.	Ensure that members of the organisation have the skills and knowledge to fulfil their roles.	Head of Democratic Services	December 2020

Issue	Action	Outcome(s)	Lead officer	Deadline
A significant number of councillors in senior roles are new to those roles following the 2019 local elections.	Promote use of the Senior Member Development Framework.	Ensure that senior members of the organisation have the skills and knowledge to fulfil their roles.	Head of Democratic Services	December 2020
Delivery of training to all managers has been delayed although key managers have received training.	Continue to offer training on the Contract Management Framework to all contract managers during 2020/21.	Ensure contracts are appropriately managed.	Head of Strategic Commissioning and Procurement	March 2021
The strategy is due to be refreshed this year.	Review the Strategic Procurement Strategy during 2020/21.	Ensure procurement practice and processes align with good practice.		March 2021

Issue	Action	Outcome(s)	Lead officer	Deadline
The Council will need to ensure its approach to communication and engagement adapts to any ongoing restrictions to the way residents can interact.	Refreshed marketing and communications delivery plan in place during 2020/21.	The Council has a marketing and communications delivery plan that ensures its key messages are effectively delivered.	Head of Marketing and Communications	March 2021
Engagement	Undertake a review of digital engagement capabilities post Covid-19 including the Council's website to meet appetite for digital engagement.	Ensure that the public are able to engage with the Council using a wide range of channels.	Head of Marketing and Communications, Head of ICT, Head of Locality Working	March 2021
Ensure the Council's scheme of delegation supports effective officer decision making.	Continue to implement a scheme of sub-delegations where appropriate to further improve governance around officer delegated decisions.	Improved, more timely and transparent officer decision-making.	Director of Legal and Governance Services	March 2021
Ensure the needs of the town's population are accurately understood.	Refresh the JSNA for children and young people this year to refresh data and complete the Adults and Older persons sections.	A refreshed needs assessment that identifies the needs of the town's population and identifies where those needs may differ.	Head of Strategy, Information and Governance	March 2021
Ensure transparency around financial decisions while protecting the Council's commercial position.	During 2020/21 the company's website will be developed further and information on meetings and decisions will start to be published where appropriate. The Council's 151 officer and the monitoring officer will receive all agendas, reports and minutes. Information on decisions made will also be reflected within the quarterly capital monitoring report to Members.	Publication of information to provide assurance while protecting the Council's commercial interests	Director of Regeneration and Culture	March 2021
Ofsted identified that improvements had to be made to the leadership and management of	Deliver the Ofsted Improvement plan, in particular those actions that have been identified to strengthen leadership within	Improved leadership and management within children's safeguarding services and improved integration with the Council's wider leadership structure to	Executive Director of Children's Services	Ongoing

<b>Issue</b>	<b>Action</b>	<b>Outcome(s)</b>	<b>Lead officer</b>	<b>Deadline</b>
children's safeguarding services.	Children's Safeguarding Services.	improve outcomes for children.		
The Information Commissioner's Office identified areas of improvement in relation to information governance.	Continue to deliver the actions put in place to address the recommendations of the Information Commissioner's Office audit.	Compliance with best practice recommendations in relation to information governance.	Head of Strategy, Information and Governance	Ongoing
Maintenance of the constitution.	Continue to hold regular meetings of the Constitution Committee to continue delivering the rolling review of the constitution during 2020/21.	A programme of updates for the Constitution that ensures it remains an up to date, coherent document.	Director of Legal and Governance Services	Ongoing

**Signed on behalf of Middlesbrough Council**

[The finalised version of this document will be signed by the Mayor, Chief Executive and the Section 151 Officer]

## 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 Priorities 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 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 Corporate Affairs and 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 approach to equality and inclusion in place, engaging staff, acting on intelligence and reporting progress.</li> </ul>	<ul style="list-style-type: none"> <li>Continue to hold regular meetings of the Constitution Committee to continue delivering the rolling review of the constitution during 2020/21.</li> <li>Continue to implement a scheme of sub-delegations where appropriate to further improve governance around officer delegated decisions.</li> <li>Implement a case management tool to complement the revised member enquiries process for those Councillors who wish to use it.</li> <li>Refresh the Member Development framework to include delivery of training on diversity and ethics, and use of social media.</li> <li>Revised members' code of conduct to be implemented and embedded subject to the approval of the revised code by full Council.</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 what they are accountable for and to whom they are accountable.</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>• 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) are 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>• Virtual meeting solutions in place for Councillor meetings while Covid-19 restrictions are in force to ensure transparency around decision-making.</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.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to implement a scheme of sub-delegations where appropriate to further improve governance around officer delegated decisions.</li> <li>• Launch the Council's new open data site which will make published data more accessible.</li> <li>• Undertake a review of digital engagement capabilities post Covid-19 including the Council's website to meet appetite for digital engagement.</li> <li>• Refresh the Member Development framework to include delivery of training diversity and ethics.</li> <li>• Refreshed marketing and communications delivery plan in place during 2020/21.</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 Mayor's priorities 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 Priorities Plans clearly outline how the Council plans to deliver the Mayor's priorities for Middlesbrough, including key measures of success.</li> <li>Strategic Plan is 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>Residents Surveys; 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>Refresh the JSNA for children and young people this year to refresh data and complete the Adults and Older persons sections.</li> <li>Refresh the Strategic Plan and the Medium Term Financial Plan during 2020/21 to reflect the impact of Covid-19 on the Council and amend supporting policies as necessary.</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. 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 Corporate Affairs and 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>• Continue to implement a scheme of sub-delegations where appropriate to further improve governance around officer delegated decisions.</li> <li>• Continue to offer training on the Contract Management Framework to all contract managers during 2020/21.</li> <li>• Review the Strategic Procurement Strategy during 2020/21.</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 Policy set out how corporate performance will be managed.</li> <li>Directorates review performance internally. 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>The organisational development ambitions of the Council are embedded within the Strategic Plan which clearly outlines corporate approach to organisational development, including workforce analysis.</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 and online consultation portal in place.</li> <li>Plans with the digital and marketing and communications strategies to advance in the current approach.</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>Continue to implement a scheme of sub-delegations where appropriate to further improve governance around officer delegated decisions.</li> <li>Deliver the Ofsted Improvement plan, in particular those actions that have been identified to strengthen leadership within Children's Safeguarding Services.</li> <li>Promote use of the Senior Member Development Framework.</li> <li>Refreshed marketing and communications delivery plan in place during 2020/21.</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 Management; Risk and Opportunity Management; and Programme and Project Management policies 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 Corporate Affairs and 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>Continue to implement a scheme of sub-delegations where appropriate to further improve governance around officer delegated decisions.</li> <li>Continue to offer training on the Contract Management Framework to all contract managers during 2020/21.</li> <li>Continue to deliver the actions put in place to address the recommendations of the Information Commissioner's Office audit.</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>Undertake population of the central Partnerships Register.</li> <li>Launch the dedicated Open Data site during 2020/21.</li> </ul>

## 8. 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.

**Curtailment (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.

**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