

CORPORATE AFFAIRS AND AUDIT COMMITTEE

Date: Thursday 26th November, 2020
Time: 3.30 pm
Venue: Virtual Meeting

AGENDA

Please note: this is a virtual meeting.

The meeting will be live-streamed via the Council's Youtube channel at 3.30 pm on Thursday 26th November, 2020
--

1. Apologies for Absence
2. Declarations of Interest
To receive any declarations of interest.
3. Minutes - Corporate Affairs and Audit Committee - 15 October 2020 3 - 6
4. Audit Results Reports 7 - 92
 - 1) Middlesbrough Council
 - 2) Teesside Pension Fund
5. Audited Statement of Accounts 2019/2020 93 - 274
6. Letters of Representation 275 - 284
7. Approval of Audited Accounts
8. Any Other Urgent Items which in the opinion of the Chair, may be considered

Charlotte Benjamin
Director of Legal and Governance Services

Town Hall
Middlesbrough
Wednesday 18 November 2020

MEMBERSHIP

Councillors J Rathmell (Chair), B Hubbard (Vice-Chair), T Higgins, J Hobson, T Mawston, D Rooney and C Wright

Assistance in accessing information

Should you have any queries on accessing the Agenda and associated information please contact Susan Lightwing, 01642 729712, susan_lightwing@middlesbrough.gov.uk

CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on 15 October 2020.

PRESENT: Councillors Rathmell, (Chair), Higgins, Hill (as substitute for Hubbard), Mawston, M Storey (as substitute for Rooney) and C Wright

PRESENT BY INVITATION: Councillor C Hobson, Executive Member Finance and Governance

ALSO IN ATTENDANCE: M Rutter, External Auditor, Ernst Young
P Jeffrey, Internal Auditor, Veritau

OFFICERS: C Benjamin, S Bonner, S Fletcher, R Horniman, D Johnson, S Lightwing, S Reynolds, J Weston, K Whitmore, I Wright

APOLOGIES FOR ABSENCE were submitted on behalf of Councillors J Hobson, Hubbard, Rooney.

DECLARATIONS OF INTERESTS

There were no Declarations of Interest at this point of the meeting.

1 **MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 24 SEPTEMBER 2020**

The minutes of the meeting of the Corporate Affairs and Audit Committee held on 24 September 2020 were taken as read and approved as a correct record.

2 **BOHO X – GOVERNANCE AND PROJECT MANAGEMENT ARRANGEMENTS**

The Director of Regeneration, Director of Finance and Head of Capital Projects were in attendance at the meeting to provide information in relation to Boho X in terms of governance and project management arrangements.

The Director of Regeneration gave a presentation outlining the arrangements in place at Middlesbrough Council.

Boho X was part of an overall project to develop the digital campus in Middlesbrough and bring together commercial and residential space at Middlehaven. It was part of a large investment in that part of the town aimed at driving the growth of the digital cluster and moving it to the next level. Boho X represented the iconic flagship centrepiece building as a visible symbol of the digital cluster's presence in Middlesbrough and was funded predominantly by the Tees Valley Combined Authority (TVCA) and some capital funding from Middlesbrough Council.

The presentation covered details of the process under the following headings:

- Executive Approval.
- Project Management.
- Project Governance.
- Key Appointments.
- Checks and Balances.
- Key Supporting Documents.

Responding to Members' questions, Officers provided information on the following:

- The project management process had been used in previous projects and had been based on the same principles for several years.
- The net internal area of floor space in the new design of Boho X was a similar level to that which was proposed in the original design. The demand study highlighted that the requirement was between 60,000 and 80,000 square feet of usable space.

- The new design provided more flexibility in terms of floor plates and it was anticipated that in response to the Covid-19 pandemic there was likely to be a requirement for a higher proportion of shared space. In addition, it was possible that companies might take different amounts of floor space than they had previously indicated.
- It was highlighted that due to the ongoing Covid-19 pandemic it was still not clear what companies' requirements were likely to be. In terms of design, the balance had shifted from the requirement for an iconic tower building to one that provided the flexibility to enable how the building might operate in future.
- It was noted that the original tower block design was announced in March, publicised nationally in June, and the re-designed building was unveiled in September 2020.
- The design work was monitored against the Royal Institute of British Architect (RIBA) Key Stages.
- In relation to the tendering process for the project, the Architect was appointed to take the project to RIBA Stage 3. The Contractor could then choose to take on board the Design Team as it was between Key Stages 1 and 3, or bring on board their own Design Team to move the project forward.
- A building of the size and complexity of both the tower and the current design required a contractor of a certain size and type, and the procurement framework was very detailed and comprehensive in terms of the types of companies available for selection.
- In terms of the timeline for the change from the tower block design to the current one, it was highlighted that throughout the process a number of meetings would have taken place between the architect, design team, design review team and the Mayor.

At this point in the meeting the Monitoring Officer provided advice to the Committee in terms of Members questioning Officers in relation to decisions made by other parties involved in the project.

- It was confirmed that Logic Architecture were appointed through the tendering process led by Bloom.
- The Design Adviser had experience of tower block design and provided input through the design review process.
- A breakdown of the £615,899 spent on the project to date was available in a recent Freedom of Information request, a copy of which would be provided to Committee Members.
- The design fee of £507,965 covered the cost for architects, design work, quantity surveyors, cost consultancy, project management and surveys.
- The Tees Valley Combined Authority (TVCA) provided a total of £26.2 million for the Boho 8 and Boho X projects. £6.2 million of that total was from the Indigenous Growth Fund and the other £20 million was provided directly from TVCA. Middlesbrough Council contributed £3.9 million from the capital programme.
- The cost of Boho 8 was £2.5 million.
- The helicopter pad in the original Boho X design was incorporated to make a statement as part of this flagship project.
- It was confirmed that the funding for Boho X was solely allocated for economic growth projects and had not been taken from other Council services.

Officers agreed to provide the Committee with information in relation to the start date of the project management process, details of the marketing and public relations exercise for the project and the timeline and a copy of the Freedom of Information request submitted by James Perry to Middlesbrough Council in relation to associated costs with Boho X development proposals.

The Committee discussed of the governance and project management arrangements for Boho X. The Chair requested that it was noted in the minutes that Councillor Mawston had left the meeting and therefore was not included in the discussion or agreement of the resolutions.

The Chair thanked the Officers for their attendance at the meeting and the information provided.

AGREED as follows:

1. The following information would be provided by Officers, in writing, to the Committee:

- The start date of the project management process.
- Details of the marketing and public relations exercise for the project and the timeline.
- A copy of the Freedom of Information request submitted by James Perry to Middlesbrough Council in relation to associated costs with Boho X development proposals.

2. Within the next five days, all Group Leaders would meet with the Monitoring Officer and Director of Finance to discuss and propose terms of reference for an audit of the governance processes in relation to Boho X.

3. The draft terms of reference would be emailed to Members of the Corporate Affairs and Audit Committee for final approval.

4. The Chair, on behalf of the Committee, would contact the Chair of Overview and Scrutiny Board, to request that consideration was given to convening an ad hoc scrutiny into Elected Members' role in decision-making in relation to Boho X.

This page is intentionally left blank

Middlesbrough Council

Provisional Audit Results Report

Year ended 31 March 2020

November 2020

Page 7

Agenda Item 4

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the top right corner of the logo.

Building a better
working world

Private and Confidential

20 November 2020

Corporate Affairs and Audit Committee
Middlesbrough Council
Civic Centre
Middlesbrough
TS1 9GA

Dear Corporate Affairs and Audit Committee Members

We are pleased to provide our provisional audit results report for the forthcoming meeting of the Corporate Affairs and Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Middlesbrough Council for 2019/20.

We have substantially completed our audit of Middlesbrough Council ('the Authority or Council') for the year ended 31 March 2020.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements. As previously communicated, we intend to modify our value for money opinion in respect of the provision of Children's Services following the Ofsted inspection findings published in January 2020.

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

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

We welcome the opportunity to discuss the contents of this report with you at the Corporate Affairs and Audit Committee meeting on 26 November 2020.



Yours faithfully

Stephen Reid

Partner

For and on behalf of Ernst & Young LLP

Contents



Page 9

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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



01

Executive Summary

Executive Summary

Scope update

In our Audit Planning Report presented at the 5 March 2020 Corporate Affairs and Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. In our Audit Planning Report Addendum presented at the 30 July 2020 Corporate Affairs and Audit Committee, we provided you with an update on the impact of Covid-19 on our audit scope and approach. We have carried out our audit in accordance with this plan and addendum, with the following updates to the scope of the audit:

Materiality

In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £9 million, with performance materiality at 75% of overall materiality of £6.8 million, and a threshold for reporting misstatements of £0.45 million. Our materiality threshold was set at 1.8% of the Authority's gross expenditure on provision of services. These thresholds were set in reference to the prior year Statement of Accounts.

The basis of our threshold, as 1.8% of gross expenditure on provision of services, remains appropriate however we reassessed the monetary value of our materiality levels upon receipt of the draft Statement of Accounts for 2019/20. Our audit procedures have been performed using a materiality of £8 million, with performance materiality at 75% of overall materiality of £6 million, and a threshold for reporting misstatements of £0.4 million.

Information Produced by the Entity (IPE)

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the Authority due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We addressed this risk by agreeing IPE to scanned documentation or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports of Covid-19

The changes to audit risks, audit approach and auditor reporting requirements as a result of Covid-19 changed the level of work we needed to perform. We discuss the impact on our audit fee in Section 8.

Executive Summary

Status of the audit

We have completed a significant proportion of our audit of the Council's financial statements for the year ended 31 March 2020 and performed the procedures outlined in our Audit Planning Report and Audit Planning Report Addendum. Subject to satisfactory completion of the outstanding items set out in Appendix D, we expect to issue an unqualified opinion on the Authority's financial statements. As previously communicated, we intend to modify our value for money opinion in respect of the provision of Children's Services following the Ofsted inspection findings published in January 2020. However until work is complete, further amendments may arise. We will provide a verbal update on these matters at the committee meeting.

We are required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report of Teesside Pension Fund. As the Authority has not yet prepared the Annual Report we have not yet been able to conclude on the consistency with these financial statements and we have not issued our report on those financial statements. We cannot formally conclude the audit and issue an audit certificate until we have issued our consistency opinion on the Pension Fund Annual Report. We are satisfied that this requirement does not have a material effect on the financial statements or on our value for money conclusion.

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

Audit differences

We identified one unadjusted audit difference in the draft financial statements which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Corporate Affairs and Audit Committee and included in the Letter of Representation. The impact of this unadjusted audit difference would be to increase expenditure and decrease debtors by £0.6 million. We agree with management's assessment that the impact is not material.

We have also identified audit differences with an aggregated impact of £4.7 million on the total comprehensive income and expenditure (£nil on the deficit on provision of services) which have been adjusted by management, along with one difference agreed in principle but still to be quantified and adjusted. Details can be found in Section 4 - Audit Differences.

Areas of audit focus

Our Audit Planning Report and Audit Planning Report Addendum identified key areas of focus for our audit of the Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report.

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

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

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



Executive Summary

Control observations

Based on the work undertaken in line with our responsibilities, we have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

We also considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment or effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified two significant risks related to the Authority's arrangements for securing value for money:

- ▶ the provision of Children's Services; and
- ▶ the financial sustainability of the Authority.

As communicated in our Audit Planning Report Addendum, we are unable to conclude that the Council had proper arrangements in place to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people within its children's social care services during 2019/20 given the significant findings raised by the Ofsted inspection published in January 2020. We are therefore proposing to modify our value for money opinion in respect of the provision of children's social care services.

Except for the provision of children's social care services, we have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Other reporting issues

We are in the process of finalising our review of the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority, including evaluating how the governance statement reflects the oversight during the year of the Authority's governance forums.

We can confirm that the Authority does not meet the size thresholds set out in the National Audit Office's Whole of Government Accounts (WGA) Group Audit Instructions which would require us to perform detailed testing of the Authority's WGA submission. We have not therefore performed detailed testing and have nothing to report in respect of the Authority's WGA submission.

We have no other matters to report.

Independence

Please refer to Section 8 for our update on Independence.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

What judgements are we focused on?

We have considered the income and expenditure streams of the Council and our assessment is that the risk is most prominent with regards to inappropriate recognition of capital grants and contributions against revenue expenditure, inappropriate capitalisation of revenue expenditure and the omission of expenditure from the financial statements.

What did we do?

- ▶ We tested a sample of capital grants and contributions to confirm that they have been recognised in accordance with agreed terms and conditions.
- ▶ We tested a sample of Revenue Expenditure Funded from Capital Under Statute (REFCUS) to confirm that it meets the criteria set down in governing regulations.
- ▶ We tested a sample of capital additions to confirm they meet the criteria for capitalisation set out in accounting standards.
- ▶ We tested samples of invoice postings and cash disbursements made after 1 April 2020 to confirm whether the expenditure to which they relate has been recorded in the correct reporting period.
- ▶ We reviewed minutes of Council and other key meetings to identify any potential accruals or provisions which may have been omitted from the financial statements.

What are our conclusions?

Our testing has not identified any misstatements arising from fraud in revenue and expenditure recognition, or other matters relating to this risk to bring to your attention.



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

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

What did we do?

- ▶ We tested a sample of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements to ensure they were appropriate. Sample items were identified for testing based upon characteristics which could be indicative of management override;
- ▶ We reviewed accounting estimates for evidence of management bias; and
- ▶ We evaluated the business rationale for any significant and / or unusual transactions.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

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

We did not identify any other transactions during our audit which appeared unusual or outside of the Council's normal course of business.

Subject to conclusion of the outstanding matters detailed in Appendix D, we are content that the financial statements are not materially misstated as a result of fraud or error.



Areas of Audit Focus

Significant risk

Valuation of land and buildings

What is the risk?

The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's financial statements and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded on the balance sheet.

Material impairment was recognised in the draft statements in respect of Centre Square and the Teesside Advanced Manufacturing Park (TAMP).

What did we do?

- ▶ We considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- ▶ We sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre).
- ▶ We consider the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the Code. We also considered if there were any specific changes to assets that have occurred and whether these were communicated to the valuer.
- ▶ We reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated.
- ▶ We considered changes to useful economic lives as a result of the most recent valuation.
- ▶ We tested accounting entries to ensure they have been correctly processed in the financial statements.
- ▶ We ensured that appropriate disclosure has been made in the financial statements concerning the material valuation uncertainty basis of valuation this year.
- ▶ We utilised EY Real Estates, our internal specialists on asset valuations, to review the valuations of both Centre Square and TAMP.

Page 17

What are our conclusions?

During the year, the Authority completed or was close to completion of three significant new investment properties - the two Centre Square buildings and TAMP. All three developments were undertaken to generate, rather than satisfy, demand and no tenancy agreements were in place at the time of their first valuations as at 31 March 2020.

We asked our EY Real Estate specialists to review the valuations of these three assets and concluded that their valuations were within the expected ranges. We do however note that the Authority's valuer adopted cautious assumptions about future occupancy levels and this resulted in valuations which were towards the bottom end of our expected range.

The draft financial statements include impairment charges of £13.6 million for TAMP and £7.9 million for the Centre Square buildings. TAMP was constructed by the Authority, however the Centre Square assets are recognised under finance leases. We have agreed with management in principle that the initial recognition during the year of both the Centre Square lease liabilities and the corresponding assets were overstated. Management are preparing revised calculations which will result in a lower lease liability and, by virtue of a lower initial asset valuation, a lower impairment charge or possibly even a small gain on revaluation at the year end.

The valuation as at 31 March 2020 is unaffected by the reassessment of the valuation on initial recognition.



Areas of Audit Focus

Significant risk

Valuation of land and buildings (continued)

What is the risk?

The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's financial statements and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded on the balance sheet.

Material impairment was recognised in the draft statements in respect of Centre Square and the Teesside Advanced Manufacturing Park (TAMP).

What did we do?

Page 18 We considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.

We sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre).

We consider the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the Code. We also considered if there were any specific changes to assets that have occurred and whether these were communicated to the valuer.

- ▶ We reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated.
- ▶ We considered changes to useful economic lives as a result of the most recent valuation.
- ▶ We tested accounting entries to ensure they have been correctly processed in the financial statements.
- ▶ We ensured that appropriate disclosure has been made in the financial statements concerning the material valuation uncertainty basis of valuation this year.
- ▶ We utilised EY Real Estates, our internal specialists on asset valuations, to review the valuations of both Centre Square and TAMP.

What are our conclusions?

We understand that since the valuation date, a number of medium or long-term tenancy agreements have been concluded covering the majority of floor space in the Centre Square buildings. We would therefore expect these assets to increase in value at their next valuation as some of the uncertainty over future occupancy levels can be unwound.

As noted in our Audit Planning Report Addendum, the valuation of the Authority's land and buildings as at 31 March 2020 was provided by the Authority's external valuer on the assumption that there is a 'material valuation uncertainty' due to the impact of Covid-19 on the real estate market.

Other than the assets discussed on the previous page, the Authority has relatively few assets, compared to other local authorities, which are of a commercial nature or held for capital appreciation and where the impact of Covid-19 on property values is likely to be most significant.

The financial statements include disclosure of this valuation basis as a critical judgement. We are content that these disclosures are appropriate.

This basis of valuation has not impacted the assurance we have been able to obtain over the valuation of property assets. We are therefore satisfied that land and buildings are not materially misstated.



Areas of Audit Focus

Inherent risk

Valuation of defined benefit pension liabilities

What is the risk?

Accounting for the Authority participating in the Local Government Pension Scheme (LGPS) involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the IAS 19 report issued to the Authority by the Authority's actuary.

ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do?

- ▶ We liaised with the audit team of the Teesside Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council. The audit of the Pension Fund is also performed by EY and shares the same Engagement Manager and Senior as our audit of the Authority.
- ▶ We assessed the work of the Pension Fund actuary (Aon Hewitt), including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors and the review of this work by our own EY actuarial team.
- ▶ We reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

What are our conclusions?

The audit of the Teesside Pension Fund identified misstatement within the asset values provided to the Authority's actuary to inform the preparation of the Authority's IAS 19 report.

Management has assessed the impact on the Authority's allocated share of the Pension Fund's assets and quantified an overstatement of the Authority's pension assets of £4.7 million. We concur with this assessment and the amount has been adjusted for in the Authority's financial statements - see Section 4.

The valuation of the Authority's pension liabilities as at 31 March 2019 were adjusted in 2018/19 to reflect the estimated impact of addressing age discrimination within the LGPS highlighted by the McCloud legal case. The valuation of liabilities at 31 March 2020 continues to include this adjustment, updated in-line with other assumptions.

On 16 July 2020, the Ministry for Housing, Communities and Local Government (MHCLG) published the proposed remedies for removing age discrimination from the LGPS. We are satisfied that the assumed remedy reflected in the valuation of the Authority's pension liabilities as at 31 March 2020 is materially consistent with the remedies proposed by MHCLG for active members.

The valuation of scheme liabilities as at 31 March 2020 does not include the impact of remedies affecting deferred and pensioner members. We do not expect these liabilities to be material, however we are engaging our EY Pensions specialists to confirm this for us. This is noted as an outstanding matter in Appendix D.

The Authority's net pension liabilities were also impacted by decreases in the valuation of pension assets in the fourth quarter of the year as a result of the Covid-19 pandemic. We have obtained assurance from the Pension Fund auditor over these movements.



Areas of Audit Focus

Inherent risk

Going concern and associated disclosures

What is the risk?

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires that the financial statements of Local Authorities are prepared on a going concern basis, unless there is an intention by government that the services provided by the Authority will no longer be provided.

Due to the unpredictability of the current environment, we believe that there is a need for additional disclosures to be made by the Authority in the financial statements, that detail the full financial and operational impact of Covid-19 during 2020/21 and beyond.

What did we do?

Page 20

We reviewed management's assessment of going concern, including management's identification of the events or conditions impacting upon going concern, including for consistency with the financial statements and for evidence of bias.

We reviewed the financial modelling and forecasts prepared by management, including any updates to the Medium Term Financial Plan. This included consideration of the key assumptions, any stress testing applied to those assumptions and potential risks to future cashflows.

- ▶ We reviewed the liquidity position of the Authority for a period of at least 12 months from the date of our audit report.
- ▶ We reviewed the going concern disclosures within the financial statements to ensure they are appropriate and represents a true and fair view of the Authority's financial position.

What are our conclusions?

On 2 September 2020, the Council approved the transfer of the £4.9 million balance on the Authority's Investment Fund Contingency Reserve into the General Fund to cover the estimated £4.4 million impact of the Covid-19 pandemic on the Authority's 2020/21 budget. Our review of management's estimation of the impact of the pandemic on the Authority's 2020/21 budget has not identified any issues with this estimate.

The Authority has sufficient reserves to absorb management's estimate of the impact on the 2020/21 budget, but will need to agree a budget for 2021/22 which balances after allowance for the impact of Covid-19 as further reserves are not available for transfer.

Our review of management's cashflow forecasts to 31 March 2021 also did not identify any matters. The Authority has sufficient liquidity, including from planned borrowing, to support management's forecast cashflows over the period to 31 March 2021. We have requested further cashflow forecasts for the period beyond 31 March 2021 from management, to allow us to assess the required period of at least 12 months from the date of our auditor's report.

We are also still to receive management's detailed assessment and disclosures in respect of going concern, although we have held discussions with management over the expected content of these disclosures.

The cashflows for the period after 31 March 2021 and the going concern disclosures are noted as outstanding items in Appendix D.



03 Audit Report



Audit report

Audit report

[TBC]

Page 22



04 Audit Differences





Audit Differences

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

Summary of unadjusted differences

We have identified one audit difference which management have agreed to remain unadjusted. This concerns the incorrect recognition of £0.6 million of costs incurred in securing the surrender of a lease, to enable sale of the associated land. This amount was originally recognised in 2018/19 and continues to be carried on the Authority’s balance sheet, when the correct treatment would have been to expense the amount at the time the costs were incurred. Clearance of this balance would increase the deficit on provision of services and net liabilities by £0.6 million.

Summary of adjusted differences

Differences impacting the Comprehensive Income and Expenditure Statement

We have identified one audit difference, which has been adjusted by management, which impacts upon the Authority’s total comprehensive income and expenditure for the period. This concerns an understatement of the defined benefit pension liability as a result of an overstatement of the Pension Fund’s assets within the information provided by the Pension Fund to the actuary to inform the calculations of individual employer liabilities, including that of the Authority. Correction of this matter resulted in an increase in net pension liabilities and the actuarial loss on pension assets of £4.7 million.

Differences not impacting the Comprehensive Income and Expenditure Statement

We have identified several other audit differences which are between lines within the balance sheet or the supporting notes, and hence do not impact upon the Authority’s total comprehensive income and expenditure for the period. These are:

- ▶ A misclassification of £4.3 million within the creditors note, resulting in an overstatement of amounts due to central government bodies and an understatement of the amounts due to other entities. This arose from a late adjustment to release Covid-19 funding received in March 2020 from deferred income, however the adjustment to deferred income was made to a different line in the creditors note than the line containing the original balance.
- ▶ A misclassification of £1.9 million within the property, plant and equipment note, resulting in an overstatement of surplus assets and an understatement of land and buildings. This arose from a scaling error presenting the actual transfer of accumulated depreciation between these categories of £1,918 as £1,918,000.
- ▶ A misclassification of £1.1 m between borrowings and creditors, resulting in an understatement of borrowings and an overstatement of creditors. This arose from the separate recognition of accrued interest within creditors when the correct treatment is to include accrued interest within borrowings balances.
- ▶ An overstatement of £0.6 million of both cash and creditors, arising from the incorrect carry forward of balances in respect of school bank accounts.

Differences to be confirmed - management have agreed to adjust

As noted on page 11, we have agreed in principle with management that the lease liabilities and initial valuation of the Centre Square buildings are overstated. Correction of this will result in a decrease to lease liabilities and a decrease to the impairment charge for the year (and possibly recognition of a small gain on revaluation). The quantum of this misstatement is still to be determined and will be confirmed once we have reviewed management’s revised calculations.



Audit Differences

Comments on disclosures

During the course of our audit we have identified a number of disclosure matters which management have agreed to amend, including:

- ▶ **Going concern** - the disclosure supporting the adoption of the going concern basis of preparation in the draft Statement of Account was one paragraph. As set out earlier in the report, we expect to see more extensive disclosures supporting the adoption of the going concern basis. We expect these disclosures to include commentary on both the Authority's reserves position, including the planned transfer between reserves in 2020/21, and the Authority's liquidity position.
- ▶ **Valuation uncertainty** - we agreed with management a number of enhancements to disclosures in the financial statements of the uncertainty caused by the Covid-19 pandemic, including in respect of property, plant and equipment valuations and the valuation of pension assets.
- ▶ **Expenditure and Funding Statement** - we noted that the positioning and labelling of the Expenditure and Funding Statement gave the impression this was a primary statement, when it is in fact a note to the financial statements.
- ▶ **Officer's remuneration** - we identified the omission of one individual from the disclosures and the incorrect aggregation of salary and exit packages as a single figure, when the reporting framework requires separate disclosure.
- ▶ **Exit packages** - we identified some factual errors within the disclosure of exit packages.
- ▶ **Expected credit losses** - we identified that the Authority had not disclosed its quantification of expected credit losses on amounts owed to the Authority as balances were presented net of allowed for amounts. The requirement is to disclose both the gross balance owed and the amount allowed for as expected credit losses.
- ▶ **Statement of Cash Flows** - we identified a line in the Statement of Cash Flows which represented an amount other than what was described. This was simply a descriptive error and the amount was correct.
- ▶ **Restatements** - we identified that both the Comprehensive Expenditure and Income Statement and the Expenditure and Funding Statement had restated the prior period comparatives to reflect changes in the structure of the Authority, however neither was labelled as restated in the disclosures.
- ▶ **Internal Consistency** - we noted several instances of internal inconsistency or casting errors.



05

Value for Money



Background

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

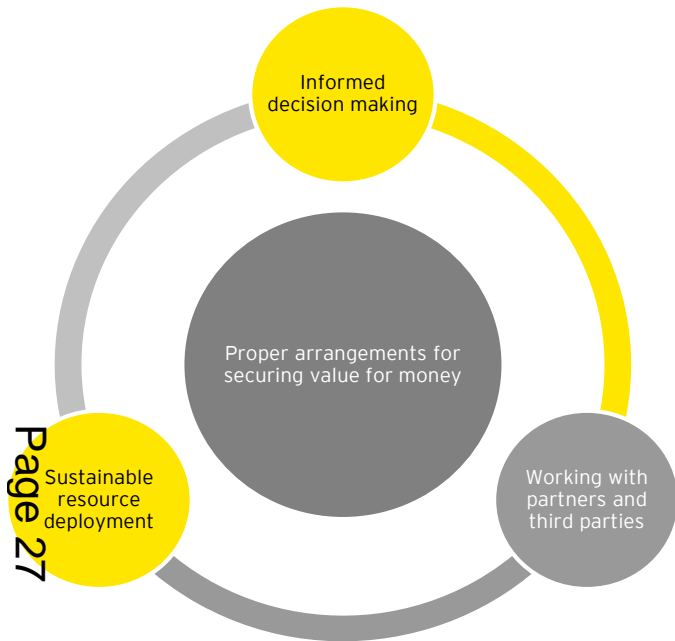
For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.



Page 27

Impact of Covid-19 on our Value for Money assessment

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

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

Overall conclusion

We identified two significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Planning Report and any other significant weaknesses or issues we require to bring to your attention.

In light of the observations and conclusions set out in the Ofsted report of January 2020, we are unable to conclude that the Council had proper arrangements in place to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people within its children's social care services during 2019/20. We therefore intend to modify our value for money opinion in respect of the provision of children's social care services, further details of which are provided on the next pages.



Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

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

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Financial Sustainability Page 28	Sustainable resource deployment	<p>We have reviewed the financial outturn of the Authority against budget and note that the Authority’s revenue activities were overbudget by £6.6 million for 2019/20. As a result, the Authority’s general fund balance at 31 March 2020 was down to the minimum level prescribed by the Section 151 Officer. The overspend in 2019/20 was driven by children’s services, which as a directorate overspent by £7.2 million with all other parts of the Authority delivering a net underspend of £0.6 million.</p> <p>We made enquiries of management and reviewed the assumptions used in the 2020/21 budget, which was set prior to the Covid-19 pandemic, to confirm they were reasonable. We note that the budget includes an additional £3.5 million of funding for children’s services to mitigate demand pressures in that service, in addition to more general inflationary pressures. Despite these challenges, we note that the Authority had identified schemes for the full £6.4 million of required savings to achieve a balanced budget in 2020/21 without utilising reserves.</p> <p>We also made enquiries of management and reviewed assumptions used to quantify the impact of the Covid-19 pandemic on the 2020/21 budget. Management estimate that they will need to utilise £4.4 million of reserves in 2020/21 due to additional cost pressures and lost income as a result of the pandemic, after allowing for additional funding. The Authority has insufficient reserves within the general fund to accommodate this impact, therefore management has proposed to release the £4.9 million set aside in the Investment Fund Contingency Reserve to maintain the general fund above the minimum prescribed level of £9.4 million.</p> <p>Management therefore have arrangements in place to manage the impact of the Covid-19 pandemic on the Authority for 2020/21, however future budgets will need to address the longer term impacts of the pandemic without ongoing reliance on reserves.</p>



Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Provision of Children's Services	Take informed decisions	<p>On 24 January 2020, the Office for Standards in Education, Children's Services and Skills (Ofsted) released the results of its inspection of the Council's children's social care services performed between 25 November 2019 and 6 December 2019. The report concluded that the quality of the Council's children's services had deteriorated since the previous inspection in 2015 and were now inadequate.</p> <p>Following publication of the Ofsted report, management developed an Improvement Plan to address the findings raised by Ofsted. Given its wide reaching scope, it took time for management to implement the Improvement Plan and, due to the relatively late stage of the year at which the Ofsted report was released, this was still in progress at the year-end.</p> <p>On 4 June 2020, the Secretary of State appointed Commissioner for Children's Services in Middlesbrough published a follow-up report which concluded that the Council should be "commended" for its response to the Ofsted report and that "there is sufficient confidence in the changes being made to indicate that this is not a Local Authority where we should move quickly to consider alternative delivery mechanisms".</p> <p>On 23 September 2020, Ofsted performed their first monitoring visit to the Authority since their report. The final report from Ofsted on the monitoring visit has not been released as of the date of this report, however we have reviewed the draft version provided to management. We note it identifies several areas of children's social care services where the Authority has made improvements since the original report, however it also highlights the significant work still to be done by the Authority to bring the quality of other parts of the service up to the required standard.</p> <p>Whilst the original Ofsted inspection took place between 25 November 2019 and 6 December 2019, the nature of the issues raised are such that the report's findings are indicative of the effectiveness of the Council's children's social care services for the period between 1 April 2019 and the dates of inspection.</p> <p>The reports of the appointed Commissioner for Children's Services in Middlesbrough and the Ofsted monitoring visit support that the Authority has since put in place appropriate governance structures to respond to the Ofsted findings, and we note management's understanding of the performance of the service in particular is highlighted as an area of improvement.</p> <p>The majority of these structures were however implemented very late in, or after, the period under audit. We are therefore unable to conclude that the Council had proper arrangements in place to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people within its children's social care services during 2019/20. Accordingly, we intend to modify our value for money opinion for 2019/20 with regards to the provision of children's social care services.</p> <p>We expect that we will continue to monitor management's implementation of the Improvement Plan, including any further assessments by external parties, as part of our 2020/21 audit.</p>



06 Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2019/20 and published with the financial statements is consistent with the audited financial statements.

We are in the process of finalising our review of the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority, including evaluating how the governance statement reflects the oversight during the year of the Authority's governance forums.

Whole of Government Accounts

Alongside our work on the financial statements, we may also be required to review and report to the National Audit Office on your Whole of Government Accounts (WGA) return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

For 2019/20, the Authority falls below the size thresholds requiring us to undertake detailed testing of the Authority's WGA return.

Other reporting issues

Other powers and duties

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

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

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting processes. We have one such matter to report.

We noted during the course of the audit that the advertised inspection period for the draft Statement of Accounts, of 27 July 2020 to 4 September 2020, lasted for 29 working days, and therefore did not meet the required 30 working day minimum inspection period required by the Accounts and Audit Regulations 2015. This was due to the fact the bank holiday on 31 August 2020 had not been taken into accounts. The inspection period was extended to 7 September 2020 after this matter was raised with management.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment or effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.



08

Independence

Confirmation and analysis of audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Planning Report presented on 5 March 2020.

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

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that management and the Corporate Affairs and Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Corporate Affairs and Audit Committee on 26 November 2020.

We confirm we have undertaken non-audit work outside of the Statement of Responsibilities of Auditors and Audited Bodies as issued by the Public Sector Audit Appointments Ltd. We have adopted the necessary safeguards in our completion of this work.

As part of our reporting on our independence, we set out below a summary of the fees for the year ended 31 March 2020.

We confirm that we have undertaken non-audit work, in the form of reporting accountant certification reviews of claims and returns. Non audit work is work not carried out under the Code

We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

Description	Final Fee 2019/20 £	Final Fee 2018/19 £
Audit Fee - Code Work (notes 1,2)	TBC	91,078
Total Audit Fee - Code Work	TBC	91,078
Housing Benefit certification work	12,800	10,500
Teacher's Pensions certification work	5,000	4,500
Total Non-Audit Work	17,800	15,000
Total Fees	TBC	122,002

Note 1 - Scale Fee Variation

We wrote to management and the Corporate Affairs and Audit Committee Chair on 10 February 2020 setting out our considerations on the sustainability of UK local public audit. Our Audit Planning Report highlighted that we would be having further discussions with management to agree a scale fee variation for 2019/20 and set out some of the factors informing this discussion. We have proposed a fee for our 2019-20 audit of £152,959, however we have not been able to agree this variation with management and have therefore asked PSAA to make a determination as to the scale fee variation to be applied. PSAA have not yet made this determination, therefore we will report our final audit fee to a subsequent meeting of the Corporate Affairs and Audit Committee. The base fee set by PSAA for our 2019/20 audit is £88,578.

Note 2 - Impact of Covid-19

We have had to perform additional procedures, over what we planned at the start of our audit, to respond to the impacts on Covid-19 on the financial statements. This has included additional consultations on the form of our audit opinion and additional procedures to review and challenge management's assessment of the impact of Covid-19 on asset valuations and on the efficiency of the financial statement production and audit. These matters will impact upon our final fee, which we are discussing with management.

New UK independence standard

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- ▶ Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates;
 - ▶ A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries;
 - ▶ A narrow list of permitted services where closely related to the audit and/or required by law or regulation;
 - ▶ Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - ▶ Tax advocacy services
 - ▶ Remuneration advisory services
 - ▶ Internal audit services
 - ▶ Secondment/loan staff arrangements
- Page 37
- ▶ An absolute prohibition on contingent fees;
 - ▶ Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential;
 - ▶ Permitted services required by law or regulation will not be subject to the 70% fee cap;
 - ▶ Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms;
 - ▶ A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards; and
 - ▶ A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2019, which came into effect from 1 April 2020.

We do not currently provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 3 July 2020 (published November 2020):

https://www.ey.com/en_uk/who-we-are/transparency-report-2020



09

Appendices

Audit approach update

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




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

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

We have tested each of these assertions substantively for all material balances included in the Balance Sheet. This is the same as our approach in prior years.

Appendix B

Summary of communications

Date 	Nature 	Summary 
22/01/2020	Meeting	The audit team met with Veritau, recently appointed as the Authority's internal auditor, to discuss our respective audit plans for 2019/20 and matters of common interest.
04/02/2020	Meeting	The audit team met with management to discuss developments during 2019/20, key audit issues and audit arrangements for our 2019/20 audit.
05/03/2020	Report	The audit team presented our Audit Planning Report, including confirmation of our independence, to the Corporate Affairs and Audit Committee.
25/03/2020	Meeting	The audit team met with management, including the Chief Executive, to discuss the findings of the Ofsted report on children's services and the Authority's response to the findings.
22/06/2020	Meeting	The audit team met with management at the start of our year-end audit fieldwork to discuss key audit issues and agree on the practical aspects of undertaking the audit whilst working remotely.
08/07/2020	Meeting	The audit team met with management, including the Chief Executive, to discuss the impact of Covid-19 on the Authority and the implementation of the Authority's response to the Ofsted findings.
30/07/2020	Report	The audit team presented our Audit Planning Report Addendum, setting out our audit response to Covid-19, to the Corporate Affairs and Audit Committee.
02/10/2020	Meeting	The audit team met with management to discuss the Authority's budget for 2020-21, including the assumptions used and level of savings required.
11/11/2020	Meeting	The audit team met with management to discuss the main issues arising during the course of the audit and the arrangements for completion of our audit.
26/11/2020	Report	The audit team will present our Audit Results Report (this report), including confirmation of our independence, to the Corporate Affairs and Audit Committee.




In addition to the above specific meetings and reports, the audit team hold monthly meetings with the Authority's Section 151 Officer and other senior officers involved in financial reporting where developments in the Authority, emerging audit topics and the status of our audit are standing agenda items. Meetings since February have also included the impact on the Authority of the Covid-19 pandemic.

In line with government guidance and EY policy, discussions since the start of the Covid-19 pandemic have been held remotely.

Appendix C




Required communications with the Corporate Affairs and Audit Committee ('the Committee')

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




		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report; and Audit Planning Report Addendum
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; ▶ Significant difficulties, if any, encountered during the audit; ▶ Significant matters, if any, arising from the audit that were discussed with management; ▶ Written representations that we are seeking; ▶ Expected modifications to the audit report; and ▶ Other matters, if any, significant to the oversight of the financial reporting process. 	Audit Results Report (this report)

Page 42

Required communications with the Committee (continued)




			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty; ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and ▶ The adequacy of related disclosures in the financial statements 	Audit Results Report (this report)	
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation; ▶ The effect of uncorrected misstatements related to prior periods; ▶ A request that any uncorrected misstatement be corrected; ▶ Corrected misstatements that are significant; and ▶ Material misstatements corrected by management 	Audit Results Report (this report)	
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity; ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist; and ▶ A discussion of any other matters related to fraud 	Audit Results Report (this report)	
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity’s related parties including, when applicable: ▶ Non-disclosure by management; ▶ Inappropriate authorisation and approval of transactions; ▶ Disagreement over disclosures; ▶ Non-compliance with laws and regulations; and ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report (this report)	

Required communications with the Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats; ▶ Safeguards adopted and their effectiveness; ▶ An overall assessment of threats and safeguards; and ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report; and Audit Results Report (this report)	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations; and ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Results Report (this report)	
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off; and ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of. 	Audit Results Report (this report)	
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Results Report (this report)	
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit Results Report (this report)	

Appendix C




Required communications with the Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Written representations we are requesting from management and/or those charged with governance	Written representations we are requesting from management and/or those charged with governance.	Audit Results Report (this report)	
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Audit Results Report (this report)	
Auditor's report	Any circumstances identified that affect the form and content of our auditor's report.	Audit Results Report (this report)	
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed; ▶ Breakdown of fee information at the completion of the audit; and ▶ Any non-audit work 	Audit Planning Report; and Audit Results Report (this report)	
Certification work	<ul style="list-style-type: none"> ▶ Summary of certification work 	Certification Report (to be presented at future meeting)	

Appendix D

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item 	Actions to resolve 	Responsibility 
Going concern, including our internal consultation on the form of our audit opinion.	<p>We are waiting on management to provide cashflow forecasts for the Authority for the period after 31 March 2021 and have only recently received updated going concern disclosures. We will need to review these and use them to inform our internal consultation on the Authority's going concern disclosures and the form of our audit opinion.</p> <p>This consultation will also include the final form of our modified VFM opinion.</p>	Management (to provide) / EY (to review)
Centre Square finance lease	We have agreed with management in principle that the initial recognition of lease liabilities and assets for Centre Square were overstated and management are preparing revised calculations.	Management / EY
Impact of proposed McCloud remedy on deferred and pensioner member pension liabilities.	Management has provided information on the number of deferred and pensioner members potentially in scope of the proposed McCloud remedy. Our EY Pensions specialists are reviewing this information to confirm if our initial assessment that the impact would not be material remains correct.	EY
Testing of grant income	We have raised several queries with management, in respect of the amounts recognised in grant income for the period, which remain to be resolved.	Management
Updated Statement of Accounts	We only recently received an updated Statement of Accounts, reflecting changes agreed during the course of the audit. We need to review this and ensure that agreed changes have been implemented as expected.	EY
Internal review	We are still completing our internal review procedures and final documentation to ensure the quality of our work.	EY
Letter of Representation	Receipt of signed letter of representation.	Management
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report.	Management / EY

Management representation letter

We include below a copy the management representation letter which we request is printed on the Authority's letterheaded paper, signed and provided to us prior to us signing our audit report. This letter should be dated with same date as the date of approval of the financial statements.

Management Representation Letter

[Date]

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

Dear Sirs

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

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and are free of material misstatements, including omissions. We have approved financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the Covid-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [management to specify rationale].

Management representation letter (continued)

Management Representation Letter (continued)

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the Covid-19 pandemic.
3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 26 November 2020.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

Management representation letter (continued)

Management Representation Letter (continued)

7. From 25 July 2019 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorised access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

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

E. Subsequent Events

1. There have been no events, including events related to the Covid-19 pandemic, subsequent to year end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

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

G. Reserves

1. We have properly recorded or disclosed in the consolidated and council financial statements the useable and unusable reserves.

H. Use of the Work of a Specialist

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

I. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

Tony Parkinson, Chief Executive



Ian Wright, Finance Director

Charlotte Benjamin, Monitoring Officer

Appendix F

Regulatory update

Since the date of our last report to the Corporate Affairs and Audit Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on the Council 
Code of Audit Practice 2020	<ul style="list-style-type: none"> ▶ The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21. 	<ul style="list-style-type: none"> ▶ The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed. ▶ Further updates will be provided when possible.
Going Concern - ISA (UK) 570 (revised September 2019)	<ul style="list-style-type: none"> ▶ The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019. ▶ This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. 	<ul style="list-style-type: none"> ▶ Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. ▶ Further updates will be provided when possible.
Independence	<ul style="list-style-type: none"> ▶ The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs). This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed. 	<ul style="list-style-type: none"> ▶ We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

About EY

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

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2020 EYGM Limited.
All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

This page is intentionally left blank

Teesside Pension Fund Provisional Audit Results Report

Year ended 31 March 2020

November 2020

Page 53

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the top right corner of the page.

Building a better
working world



Private and Confidential

20 November 2020

Dear Corporate Affairs and Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Corporate Affairs and Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Teesside Pension Fund for 2019/20.

We have substantially completed our audit of Teesside Pension Fund ('the Fund') for the year ended 31 March 2020.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements. Our audit opinion will include additional narrative to highlight financial statement disclosures that the valuations of directly held property have been prepared on the basis of a 'material valuation uncertainty'. This matters does not constitute a qualification of our audit opinion.

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

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

We welcome the opportunity to discuss the contents of this report with you at the Corporate Affairs and Audit Committee meeting on 26 November 2020, and the Pensions Committee meeting on 9 December 2020.

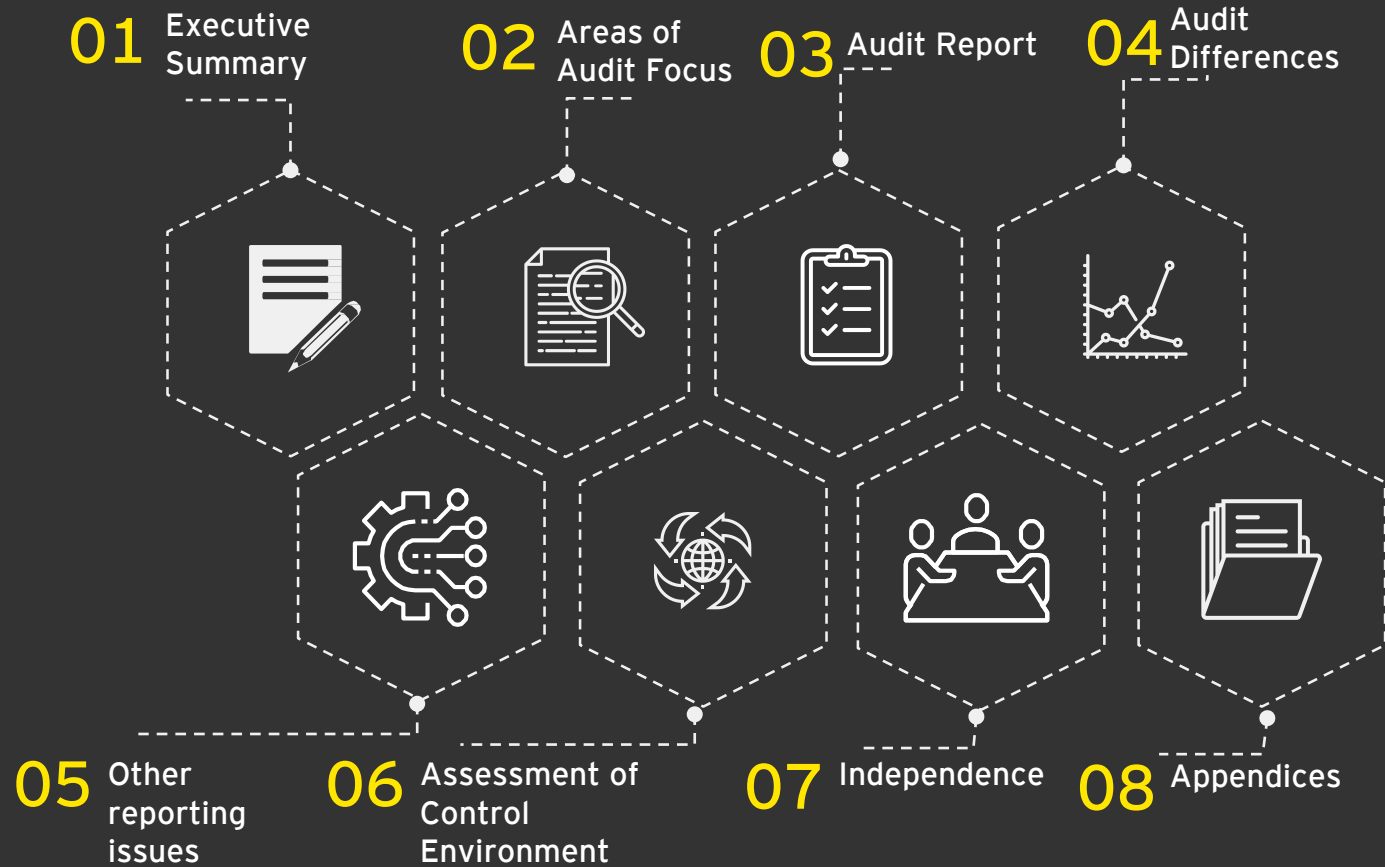
Yours faithfully

Hassan Rohimun

Associate Partner

For and on behalf of Ernst & Young LLP

Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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



01

Executive Summary

Executive Summary

Scope update

In our Audit Planning Report tabled at the 5 March 2020 Corporate Affairs and Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. In our Audit Planning Report Addendum tabled at the 30 July 2020 Corporate Affairs and Audit Committee, we provided you with an update on the impact of Covid-19 on our audit scope and approach. We have carried out our audit in accordance with this plan, as updated to respond to the risks of Covid-19.

Materiality

In our Audit Planning Report Addendum, we communicated that our audit procedures would be performed using a materiality of £37.4m, with performance materiality, at 75% of overall materiality, of £28.0m, and a threshold for reporting misstatements of £1.9m. We have considered whether any change to our materiality is required in light of observations during the course of our audit. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report Addendum remain appropriate.

Information Produced by the Entity (IPE)

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Fund's systems. We addressed this risk by agreeing IPE to scanned documentation or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports of Covid-19

The changes to audit risks, audit approach and auditor reporting requirements as a result of Covid-19 changed the level of work we needed to perform. We discuss the impact on our audit fee in Section 7.

Status of the audit

We have completed a significant proportion of our audit of Teesside Pension Fund's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit Planning Report and Audit Planning Report Addendum. Subject to satisfactory completion of the outstanding items set out in Appendix D, we expect to issue an unqualified opinion on the Fund's financial statements. However until work is complete, further amendments may arise. We will provide a verbal update on these matters at the Committee meeting.

We are proposing that our audit opinion will emphasise the following with an Emphasis of Matter paragraph:

- ▶ **Valuation of property-related investments** - We draw attention to Notes 5 and 13 of the financial statements, which describe the valuation uncertainty the Fund is facing as a result of Covid-19 in relation to property-related investments. Our opinion is not modified in respect of this matter.

Executive Summary

Audit differences

We identified £6.9m of unadjusted audit differences in the draft financial statements which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Corporate Affairs and Audit Committee and included in the Letter of Representation. We have also identified audit differences with an aggregated impact of £33.1m which have been adjusted by management. Details can be found in Section 4 Audit Differences.

Areas of audit focus

Our Audit Planning Report and Audit Planning Report Addendum identified key areas of focus for our audit of Teesside Pension Fund's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report. We ask you to review these and any other matters in this report to ensure:

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

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

Page 58

Control observations

During the audit we identified one control observation, relating to management's review and challenge of information provided by the Fund's custodian, and made an improvement recommendation in relation to management's financial processes and controls. Further details are set out in Section 6. We also considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment or effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

Other reporting issues

We are required to review the Pension Fund Annual Report and issue an opinion on the consistency of the report with the audited Pension Fund financial statements included within the Middlesbrough Council Statement of Accounts. It was agreed with management that the Pension Fund Annual Report would be provided to us once the Pension Fund financial statements were finalised, therefore we have not yet received this report. We will provide an update on the consistency of the Pension Fund Annual Report with the audited Pension Fund financial statements, including our opinion thereon, to a future meeting of the Corporate Affairs and Audit Committee.

Independence

Please refer to Section 7 for our update on Independence.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We respond to this fraud risk on every audit engagement. We did not identify any specific fraud risks in our planning.

What judgements are we focused on?

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

What did we do?

- ▶ We identified fraud risks during the planning stages of our audit;
- ▶ We inquired of management about risks of fraud and the controls put in place to address those risks;
- ▶ We developed our understanding of the oversight given by those charged with governance over management's processes over fraud;
- ▶ We considered the effectiveness of management's controls designed to address the risk of fraud;
- ▶ We determined an appropriate strategy to address those identified risks of fraud; and
- ▶ We performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

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

We did not identify any other transactions during our audit which appeared unusual or outside Teesside Pension Fund's normal course of business.

Subject to conclusion of the outstanding matters detailed in Appendix D, we are content that the financial statements are not materially misstated as a result of fraud or error.



Areas of Audit Focus

Significant risk

Valuation of unquoted pooled investment vehicles

What is the risk?

The Fund's investments include unquoted pooled investment vehicles. Judgement is required from Investment Managers to value these investments as prices are not publicly available. The material nature of these investments means that any error in these judgements could result in a material valuation error.

We identified the valuation of the Fund's investments in unquoted pooled investment vehicles as a significant risk, as even a small movement in the assumptions underpinning investment manager valuations could have a material impact upon the financial statements.

Additional considerations for Covid-19

Unquoted assets are either level 2 or level 3 on the fair value hierarchy, which means quoted market prices are not available and valuation is reliant on the use of inputs derived from observable market data (level 2) or are not based on observable market data (level 3). The approach usually taken to value these assets, which sometimes relies on adjusting valuations or other observable information as at 31 December, has had to change because of the market volatility brought about by Covid-19 in the final quarter of 2019/20. We will need to consider the revised valuation approach taken by the Fund and relevant fund managers to gain assurance that the impact of Covid-19 on investment values has been properly accounted for in the financial statements.

What judgements are we focused on?

Our work in this area focussed on ensuring that the assumptions used by investment managers in relation to the valuation of complex pooled investment vehicles were free from material misstatement, including due to the impacts on investment values of Covid-19.

What did we do?

- ▶ We documented and walked through the design and implementation of the controls over the valuation process;
- ▶ We obtained third party confirmations of the valuation of unquoted pooled investments at the reporting date from the investment managers. We also cross-checked the investment manager confirmations to the confirmation of assets held obtained from the Fund's custodian;
- ▶ We reviewed the relevant investment manager controls' reports for qualifications or exceptions that may affect the audit risk;
- ▶ We compared the movement in valuation of investments in unquoted investment vehicles with the returns recognised as investment income per the investment manager confirmations, and investigated any unusual variances;
- ▶ We agreed a sample of purchases and sales of unquoted pooled investments during the period to supporting evidence;
- ▶ We reviewed the basis of valuation for unquoted investments and ensure it is in line with the accounting policy.



Areas of Audit Focus

Significant risk

Valuation of unquoted pooled investment vehicles (continued)

What did we do (continued)?

- ▶ We enquired of management as to what steps they have taken to ensure the accuracy of valuations provided by investment managers accurately reflect the impact of Covid-19 on investments; and
- ▶ We have considered whether the planned audit procedures, detailed above, provided sufficient audit assurance over the impact of Covid-19 on investments. We opted to perform the following further procedures, in addition to those set out in our plan:
- ▶ We requested management obtain updated valuations as at 31 March 2020 from investment managers, to capture any subsequent revisions to valuations made as more information about market conditions at the reporting date emerged, and compared these valuations to those used in the financial statements.

Page 22

What are our conclusions?

We identified a number of differences between the amounts included within the financial statements and the confirmations provided by investment managers and the Fund's custodian, including:

- ▶ An overstatement of £22.5m in the valuation of one investment, where the unit price provided by the investment manager was lower than that provided by the custodian and used within the financial statements;
- ▶ Double-counting of an investment of £19.6m which was split into two separate sub-funds during the year, as the financial statements included both the newly created funds existing at year-end and the previous single fund which no longer existed;
- ▶ Understatements of £10.6m and £7.0m in two investments due to the omission from year-end valuations of purchases which took place close to the year-end;
- ▶ An overstatement of £8.6m in one investment due to the inclusion within the year-end valuation of an amount disposed of close to the year-end;
- ▶ A balance of £13.9m for which management have been unable to provide supporting evidence to justify its recognition as an asset of the Fund; and
- ▶ A number of smaller variances which have a net impact of understating assets by £7.0m.

We have considered the impact of the errors identified in our assessment of the control environment, further details of our observations and recommendations are provided in section 6.

Our procedures covered 100% of the population.

Review of the updated valuations obtained from investment managers did not identify any significant changes in valuations which required reflecting in the financial statements.

Management have agreed to adjust for some of the identified misstatements detailed above which amounts to a net £24.4m. The net impact of identified misstatements which management have not agreed to adjust amounts to £15.5m. Further details of which are provided in section 4.



Areas of Audit Focus

Significant risk

Valuation of directly held property

What is the risk?

The Fund has a significant portfolio of directly held property investments. The valuation of these properties is subject to a number of assumptions and judgements, small changes in which could have a significant impact upon the financial statements.

Additional considerations for Covid-19

In-line with guidance issued by the Royal Institution of Chartered Surveyors (RICS), the Fund's property valuer provided their valuation of the Fund's directly held property at 31 March 2020 on the assumption that there is a 'material valuation uncertainty' due to the impact of Covid-19 on the real estate market.

What judgements are we focused on?

Our work in this area focussed on ensuring that the assumptions used by the property valuers in relation to the valuation of directly held property, including assumptions about the impact of Covid-19 on the property market, were free from material misstatement.

What did we do?

- ▶ We documented and walked through the design and implementation of the controls over the valuation process;
- ▶ We obtained the valuation report from the external valuer (Cushman and Wakefield) and reconciled the valuations provided to those utilised within the financial statements;
- ▶ We assessed the qualifications and experience of the external valuer to ensure that they can be relied upon as management's experts;
- ▶ We engage EY Real Estate experts to review and challenge the assumptions used by the external valuer to ensure that they are in line with our expectations; and
- ▶ We reviewed the financial statement disclosures to ensure that appropriate disclosure has been made in the accounts concerning the material valuation uncertainty.

What are our conclusions?

Our review of the valuations of the Fund's directly held property has not identified any misstatements.

We do however note that of the sample of 8 properties we requested our EY Real Estate experts to review, 4 were valued towards the upper end of the expected range of valuations and 4 were in the middle of the expected range. We would therefore consider the Fund's valuations, whilst reasonable, to be towards the higher end of expectations.

Properties valued towards the upper end of the expected range were predominantly retail properties, where the impact of Covid-19 on valuations has been greatest.

The valuations of property assets at 31 March 2020 were provided to management by their valuer on the basis of a 'material valuation uncertainty' due to the impact of Covid-19 on the real estate market. The draft financial statements presented for audit did not include disclosure of this fact, however following audit challenge this will be disclosed as a critical judgement, sensitivity and accounting estimate in the final statements.



03 Audit Report



Audit report

Audit report

- ▶ For 2019/20, the wording of our audit report is subject to an internal consultation process. We will communicate the details of the report once our consultation process has been concluded.



04 Audit Differences





Audit Differences

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

Summary of adjusted differences

We highlight the following misstatements, having a net impact of reducing net assets by £33.1m, which have been corrected by management that were identified during the course of our audit:

- ▶ An overstatement of £22.5m in the valuation of one investment, where the unit price provided by the investment manager was lower than that provided by the custodian and used within the financial statements;
- ▶ Double-counting of an investment of £19.6m which was split into two separate sub-funds during the year, as the financial statements included both the newly created funds existing at year-end and the previous single fund which no longer existed;

An overstatement of £8.6m in one investment due to the inclusion within the year-end valuation of an amount disposed of close to the year-end;

Understatements of £10.6m and £7.0m in two investments due to the omission from year-end valuations of purchases which took place close to the year-end.

Summary of unadjusted differences

We highlight the following misstatements, having a net impact of reducing net assets by £6.9m, which have been identified during the course of our audit but not corrected for within the financial statements:

- ▶ A balance of £13.9m for which management have been unable to provide supporting evidence to justify its recognition as an asset of the Fund; and
- ▶ An understatement of £7.0m as the aggregated net impact of a number of smaller differences identified between the financial statements and investment manager confirmations, excluding those differences separately detailed above. The majority of these differences are timing differences whereby the financial statements do not reflect purchases or sales occurring prior to the year end.

We ask that these differences be corrected or a rationale as to why they are not corrected be approved by the Corporate Affairs and Audit Committee and included in the Letter of Representation.

Source of differences

We have raised a recommendation to address the common source of some of these misstatements within Section 6 of our report.



Audit Differences

Comments on disclosure notes

The following matters relating to the disclosures within the financial statements have been identified during the course of our audit and corrected by management:

- ▶ **Material valuation uncertainty** - the draft financial statement did not include reference to the fact directly held property valuations have been prepared on the basis of a material valuation uncertainty;
- ▶ **Going concern** - the draft financial statements did not specifically state that the financial statements had been prepared on a going concern basis, nor did they include management's assessment as to why the adoption of the going concern basis is appropriate;
- ▶ **Outstanding commitments** - the draft financial statements did not include disclosure of the Fund's outstanding commitments to investment managers (note this was inserted prior to inclusion in the draft Middlesbrough Council Statement of Accounts);
- ▶ **Geographical Analysis** - we identified misclassifications within the disclosure of the geographical analysis of the Fund's assets totalling £33.8m;
- ▶ **Financial instruments** - the draft financial statements incorrectly identified directly-held property assets as financial instruments; and
- ▶ **Miscellaneous** - we made a number of recommendations to improve the disclosures within the financial statements, including several instances of internal inconsistency.



05 Other reporting issues

Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements.

Financial information in the Statement of Accounts 2019/20 and published with the financial statements is consistent with the audited financial statements.

Other powers and duties

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

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

Other matters

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



06

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have identified one significant deficiency in the design or operation of an internal control which led to a material misstatement of the financial statements, as reported in sections 2 and 4. We have made a recommendation to address this deficiency on the next page.

We have not identified any other significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment or effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

The matters reported here are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.



Assessment of Control Environment

Area	Management review of information provided by the Fund's custodian	Rating
------	---	--------

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 73</p> <p>Observation and recommendation</p>	<p>Management rely on information provided by the Fund's custodian when preparing the financial statements. Our audit procedures identified a number of issues with this information, including:</p> <ul style="list-style-type: none"> ▶ Differences between the asset valuations recorded by the custodian and the asset valuations provided by investment managers, most notably a £22.5m difference on one large investment; ▶ The double-counting of a £19.6m investment by the custodian, whereby both a disposed of investment and its replacements were included in the year-end valuation report. The splitting of the investment occurred in September 2019; and ▶ Timing differences, such that asset valuations provided by the custodian as at 31 March 2020 did not reflect purchases and sales which took place prior to 31 March 2020, with a net impact of understating assets by £16.0m. <p>Whilst the net impact of the above was not material, the absolute value of identified misstatements was material. The aggregate impact of all misstatements identified during the audit, including the above, was also material. We therefore consider there to be a risk of material misstatement arising from errors in the information provided by the Fund's custodian remaining uncorrected and being utilised in the production of the financial statements.</p> <p>We recommend that management review the processes in place for assuring the information provided by the Fund's custodian is accurate and complete. Where timing differences are known to exist, management should ensure that they have processes in place to determine the impact on the financial statements and, where appropriate, the information provided by the custodian should be adjusted prior to inclusion within the financial statements.</p>
--	--

<p>Management comment</p>	<p>We have been working with the Fund's custodian to ensure the processes for updating manager valuation information (including the on-boarding of new managers or investments) are robust. We are also closely monitoring the figures provided by the custodian to ensure we keep track of any payments to or from managers that may not be reflected in the custodian's figures (typically, because of timing issues), and will ensure appropriate adjustments are made to quarterly and year-end valuations.</p>
---------------------------	---



Page 74



07

Independence

Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Planning Report presented on 5 March 2020.

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

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that management and the Corporate Affairs and Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 26 November 2020.

We confirm we have undertaken non-audit work outside of the Statement of Responsibilities of auditors and audited bodies as issued by the Public Sector Audit Appointments Ltd. We have adopted the necessary safeguards in our completion of this work.

Note 1 - Scale Fee Variation

We wrote to management and the Corporate Affairs and Audit Committee Chair on 10 February 2020 setting out our considerations on the sustainability of UK local public audit. Our Audit Planning Report highlighted that we would be having further discussions with management to agree a scale fee variation for 2019/20 and set out some of the factors informing this discussion. We outlined to management that we believe the fee for the Pension Fund should be set at £55,574. Management have not agreed to the proposed increase and we have therefore asked the PSAA to make a determination as to the scale fee variation to be applied. PSAA have not yet made this determination, therefore we will report our final audit fee to a subsequent meeting of the Corporate Affairs and Audit Committee. The base fee set by PSAA for our 2019/20 audit is £21,972.

Note 2 - Impact of Covid-19

We have had to perform additional procedures, over what we planned at the start of our audit, to respond to the impacts on Covid-19 on the financial statements. This has included additional consultations on the form of our audit opinion and additional procedures to review and challenge management's assessment of the impact of Covid-19 on asset valuations. These additional procedures will impact upon our final fee, which we will discuss with management following completion of our audit.

Note 3 - IAS 19 Procedures

For 2019/20 a fee will be charged for the provision of IAS 19 assurances to the auditors of scheduled bodies that are subject to the NAO Code of Audit Practice. Such additional fees are permissible under the PSAA contract and will represent a scale fee variation requiring PSAA approval. The fee for the provision of IAS 19 assurances to the auditor of the Care Quality Commission (CQC), which is not subject to the NAO Code of Audit Practice, is covered by a separate engagement agreement between ourselves and the Fund and does not require approval by PSAA. Management may opt to recharge such fees to the relevant member bodies.

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

We confirm that we have undertaken audit work, in the form of IAS 19 procedures on behalf of the auditors of some participating employers of the Fund.

We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

Description	Final Fee 2019/20 £	Final Fee 2018/19 £
Audit Fee (note 1, 2)	TBC	21,972
IAS 19 Procedures - Code (note 3)	6,000	-
Total Audit Fees	TBC	21,972
IAS 19 Procedures - CQC (note 3)	2,000	2,000
Total Fees for Non-Audit Services	2,000	2,000
Total Fees	TBC	23,972

New UK independence standard

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- ▶ Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates;
- ▶ A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries;
- ▶ A narrow list of permitted services where closely related to the audit and/or required by law or regulation;
- ▶ Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - ▶ Tax advocacy services
 - ▶ Remuneration advisory services
 - ▶ Internal audit services
 - ▶ Secondment/loan staff arrangements

▶ An absolute prohibition on contingent fees;

▶ Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential;

- ▶ Permitted services required by law or regulation will not be subject to the 70% fee cap;
- ▶ Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms;
- ▶ A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards; and
- ▶ A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2019, which came into effect from 1 April 2020.

We do not currently provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 3 July 2020 (published November 2020):

https://www.ey.com/en_uk/who-we-are/transparency-report-2020



Page 78

08 Appendices

Audit approach update

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




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

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

We have tested each of these assertions substantively for all material balances included in the Net Asset Statement. This is the same as our approach in prior years.

Appendix B

Summary of communications




Date 	Nature 	Summary 
22 January 2020	Meeting	The audit team met with Veritau, recently appointed as the internal auditors of Middlesbrough Council (as the administering authority), to understand the scope of their planned work in respect of the Pension Fund.
4 February 2020	Meeting	The audit team met with management to discuss developments during 2019/20, key audit issues and audit arrangements for our 2019/20 audit.
5 March 2020	Report	The audit team presented our Audit Planning Report, including confirmation of our independence, to the Corporate Affairs and Audit Committee.
11 March 2020	Report	The audit team presented our Audit Planning Report, including confirmation of our independence, to the Pensions Committee.
17 June 2020	Meeting	The audit team attended the meeting of the Pensions Committee, where amongst other agenda items management presented a paper on the impacts of Covid-19 on the Fund's investments.
22 July 2020	Report	The audit team presented our Audit Planning Report Addendum, setting out our audit response to Covid-19, to the Pensions Committee.
30 July 2020	Report	The audit team presented our Audit Planning Report Addendum, setting out our audit response to Covid-19, to the Corporate Affairs and Audit Committee.
14 August 2020	Meeting	The audit team met with management to discuss the status of our audit, significant audit findings to date and arrangements for completion of our audit.
26 November 2020	Report	The audit team will present our Audit Results Report (this report), including confirmation of our independence, to the Corporate Affairs and Audit Committee.
9 December 2020	Report	The audit team will present our Audit Results Report (this report), including confirmation of our independence, to the Pensions Committee.

In addition to the above specific meetings and reports, the audit team met with the management team multiple times throughout the audit to discuss the progress of the audit and audit findings. In line with government guidance and EY policy, meetings since the start of the Covid-19 pandemic have been held remotely.

Appendix C




Required communications with the Corporate Affairs and Audit Committee

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

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Corporate Affairs and Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; ▶ Significant difficulties, if any, encountered during the audit; ▶ Significant matters, if any, arising from the audit that were discussed with management; ▶ Written representations that we are seeking; ▶ Expected modifications to the audit report; and ▶ Other matters, if any, significant to the oversight of the financial reporting process. 	Audit Results Report (this report)

Appendix C




Required communications with the Corporate Affairs and Audit Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Page 82 Financial statements	<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty; ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and ▶ The adequacy of related disclosures in the financial statements 	Audit Results Report (this report)	
	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation; ▶ The effect of uncorrected misstatements related to prior periods; ▶ A request that any uncorrected misstatement be corrected; ▶ Corrected misstatements that are significant; and ▶ Material misstatements corrected by management 	Audit Results Report (this report)	
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Corporate Affairs and Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity; ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist; and ▶ A discussion of any other matters related to fraud 	Audit Results Report (this report)	
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management; ▶ Inappropriate authorisation and approval of transactions; ▶ Disagreement over disclosures; ▶ Non-compliance with laws and regulations; and ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report (this report)	

Appendix C

Required communications with the Corporate Affairs and Audit Committee (continued)




Our Reporting to you

Required communications	 What is reported?	  When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats; ▶ Safeguards adopted and their effectiveness; ▶ An overall assessment of threats and safeguards; and ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report; and Audit Results Report (this report)
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations; and ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Results Report (this report)
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off; and ▶ Enquiry of the Corporate Affairs and Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Corporate Affairs and Audit Committee may be aware of. 	Audit Results Report (this report)
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit Results Report (this report)

Appendix C

Required communications with the Corporate Affairs and Audit Committee (continued)




Our Reporting to you

Required communications	 What is reported?	  When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report (this report)
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Audit Results Report (this report)
Auditors report	Any circumstances identified that affect the form and content of our auditor's report.	Audit Results Report (this report)
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed; ▶ Breakdown of fee information at the completion of the audit; and ▶ Any non-audit work 	Audit Planning Report; and Audit Results Report (this report)

Appendix D

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item 	Actions to resolve 	Responsibility 
Internal review	We are still completing our internal review procedures to ensure the quality of our work.	EY
Internal consultation on the final wording of our audit opinion	Given the exceptional circumstances this year, we have introduced additional internal consultation processes in respect of our audit opinion which we need to conclude. This consultation process is performed as one for the Pension Fund and the administering authority. There are outstanding matters on our audit of the administering authority which mean we are not yet in a position to commence this consultation.	Management (of administering authority) / EY
Final statements	We have only recently received updated financial statements from management. We need to review these to ensure that agreed changes have been implemented as expected.	EY
Management Letter	Receipt of signed management representation letter.	Management / Corporate Affairs and Audit Committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report.	Management / EY

Management representation letter

We include below a copy the management representation letter which we request is printed on the Authority's letterheaded paper, signed and provided to us prior to us signing our audit report. This letter should be dated with same date as the date of approval of the financial statements.

Management Representation Letter

[Date]

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

Dear Sirs,

This letter of representations is provided in connection with your audit of the financial statements of Teesside Pension Fund ("the Fund") for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1 April 2019 to 31 March 2020 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2020, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and are free of material misstatements, including omissions. We have approved the financial statements.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the Covid-19 pandemic on our system of internal controls.
6. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in aggregate, to the financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [management to insert rationale].

Management representation letter (continued)

Management Representation Letter (continued)

B. Non-compliance with laws and regulations including fraud

1. We acknowledge that we are responsible for determining that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of non-compliance with any legal duty.
6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - ▶ Involving financial improprieties;
 - ▶ Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements;
 - ▶ Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties;
 - ▶ Involving management, or employees who have significant roles in internal control, or others; or
 - ▶ In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - ▶ Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - ▶ Additional information that you have requested from us for the purpose of the audit; and
 - ▶ Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the Covid-19 pandemic.
4. We have made available to you all minutes of the Committee meetings of the Fund (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the 2019/20 to the most recent meeting on 9 December 2020.
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
6. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.

Management representation letter (continued)

Management Representation Letter (continued)

8. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

9. From 1 April 2019 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

E. Subsequent Events

1. There have been no events, including events related to the Covid-19 pandemic, subsequent to year end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the information disclosed on pages xxx to xxx and pages xxx to xxx of the Middlesbrough Council Statement of Accounts 2019/20 [page numbers to be confirmed in final version].
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

H. Derivative Financial Instruments

1. We confirm that all investments in derivative financial instruments have been made after due consideration by the members of the management of the Fund of the limitations in their use imposed by The LGPS Management and Investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of the management of the Fund at the Fund's year end and the terms and conditions relating thereto. Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to you.

I. Pooling investments, including the use of collective investment vehicles and shared services

1. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

Management representation letter (continued)

Management Representation Letter (continued)

J. Actuarial valuation

1. The latest report of the actuary Aon Hewitt as at 31 March 2019 and dated 31 March 2020 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

K. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value the Fund's directly-held property assets and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

L. Estimates - Property valuation

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020.

2. We confirm that the significant assumptions used in making the valuation of directly held property estimates appropriately reflect our intent and ability to carry out the investment strategy to which they relate and reflect the expectations of the Fund.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete, including the effects of the Covid-19 pandemic on valuations, and made in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the Covid-19 pandemic.

Yours faithfully,

Tony Parkinson, Chief Executive

Ian Wright, Finance Director

Charlotte Benjamin, Monitoring Officer

Schedule of unadjusted audit differences



The following relates to the overstatement of investment assets in the financial statements:

	Dr (£'000)	Cr (£'000)
Change in market value	6,957	
Investment assets		6,957

Appendix F

Regulatory update

Since the date of our last report to the Corporate Affairs and Audit Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on Teesside Pension Fund 
Going Concern - ISA (UK) 570 (Revised September 2019)	<ul style="list-style-type: none"> ▶ The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019. ▶ This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. 	<ul style="list-style-type: none"> ▶ Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. ▶ Further updates will be provided when possible.
dependence	<ul style="list-style-type: none"> ▶ The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs) . This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed. 	<ul style="list-style-type: none"> ▶ We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales. ▶ We do not currently provide any non-audit services to you.

About EY

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

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2020 EYGM Limited.
All Rights Reserved.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com

This page is intentionally left blank

Report of:	Director of Finance – Ian Wright
Submitted to:	Corporate Affairs & Audit Committee – 26 th November 2020
Subject:	Audited Statement of Accounts – 2019/20

Summary

Proposed decision(s)
The proposed decision is for Members to approve the Council’s Statement of Accounts for 2019/20 following external audit.

Report for:	Key decision:	Confidential:	Is the report urgent?¹
Decision	Not Applicable – statutory requirement	No public decision.	Not applicable. Does not follow normal decision-making process for Executive.

Contribution to delivery of the 2020-23 Strategic Plan		
People	Place	Business
Part of the financial management and reporting process that underpin all key strategic aims.	Part of the financial management and reporting process that underpin all key strategic aims.	Part of the financial management and reporting process that underpin all key strategic aims.

Ward(s) affected
All – corporate report.

What is the purpose of this report?

1. The purpose of the report is for Members to review and approve the Council’s Statement of Accounts for 2019/20 following external audit.

Why does this report require a Member decision?

2. It is a statutory requirement under the Accounts & Audit Regulations 2015 for the Council to approve the audited Statement of Accounts each year. Under the Constitution, that body is the Corporate Affairs & Audit Committee.

Report Background

3. The draft Statement of Accounts for 2019/20 was presented to this Committee on 30th July 2020 which gave Members an understanding of the Council's financial position at 31st March 2020 and how it had performed against its revenue and capital budget plans. Significant issues included within the financial statements were also discussed for information.
4. The preparation and external audit of the Statement of Accounts and their timeliness for presentation to Committee has been significantly affected by the Covid-19 pandemic and the impact that this has had on local authorities, their workload and with the majority of staff having to work from home. Because of this, the Audit and Accounts Regulations 2015 were amended by the Coronavirus regulations 2020 to allow additional time to be factored in for this work. The revised statutory deadlines for 2019/20 being 31st August 2020 for the draft accounts and 30th November 2020 for the audited accounts.
5. The statutory regulations also require a 30 working day period where the accounts are held on deposit by the Council and can be inspected by members of the public. This was held from 27th July 2020 to 7th September 2020. No requests to inspect either the accounts or supporting information were received during this period.
6. The draft accounts have now been substantially audited by the Council's external auditors Ernst and Young (EY). They expect to give an unqualified opinion on the financial statements i.e. the accounts give a true and fair view of the financial position of the Council as at 31st March 2020 and have been prepared in accordance with the CIPFA Code of Practice for Local Authority Accounting.
7. As is usual during the audit process, EY have identified a number of issues that require changes to be made to the draft accounts and these have been reflected in the revised final Statement of Accounts attached. Details of the adjustments that have been made to the accounts are included in EY's audit results report and are explained below.
8. There are five main accounting issues which should be drawn to the Committee's attention. Four of these have been amended in the updated accounts and one has not due to its relatively small size and the amount of work that would be needed to restate.

Pensions Liabilities

9. As Members will be aware the net pensions liability in the accounts in respect of retirement benefits (IAS 19) is a significant figure. In the draft balance sheet presented on 30th July the liability was £278.9m. The effect of this large balance and movement in year (almost £80m increase) means that the total liabilities of the Council exceed assets owned for the first time.
10. The assets that are part of the net pensions liability under IAS 19 are derived from a % of the total assets held by the Teesside Pension Fund. As part of EY's audit of the pension fund, they have identified a misstatement in relation to the total value of assets held of £26m (0.7% of the Fund). This reduction in assets has a direct impact on the IAS 19 assets held in the Council's accounts. Our relevant share is around £4.7 and this increases the net liability above to £283.6m.

11. There is also still some on-going discussion with EY around whether the legal ruling for the McCloud age discrimination case has been correctly factored into the triennial valuation of the pension fund and into 2019/20 liabilities. Most of this information has been provided via the Council's pensions actuary and therefore should not require any further adjustments to be made to the net liability position.

Finance Lease Liability

12. The lease liability in the draft accounts for the centre square buildings was originally recognised based on the construction cost of the asset at £20.834m and that total cash flows over the next 35 years would be split between principal and interest in terms of an amortised cost model based on actual expected payments.

13. However, IAS17, the international accounting standard on leasing states that the valuation of the obligation of the lease needs to be based on minimum rather than actual lease rental payments and that these should be discounted over the lease term. As a result, the liability has been overstated substantially.

14. The amount that should have been recognised in the accounts has now been recalculated at £12.374m, a difference of £8.460m from the draft financial statements in July. Although this may seem strange to recognise a liability at a much lower value than the cost of the asset, this difference essentially reflects the time value of money over the lease period.

15. The value of the lease liability in the accounts will be revisited on an annual basis to ensure it is assessed each financial year in line with the standard approach. The accounts have been updated for this revised amount and the net liabilities recorded within the Council's balance sheet have improved because of this audit adjustment.

Schools Bank Accounts

16. As part of the closure of holding accounts that support the accounting process for schools with their own bank accounts, a creditor (amount owed) was included in the Balance Sheet for £0.622m. This was on the basis of amounts owed to academy schools as part of their transfer from local authority status.

17. On further examination, this amount is not owed to academies but includes a number of funding and expenditure items that have not been cleared over a number of years. As it is not a creditor, the easiest way to resolve this is to reverse the year end accrual back to the holding account which forms part of the Council's cash balances and to investigate these transactions during 2020/21

Lease Surrender Costs

18. As part of the legal process to declare Newham Farm as surplus to requirements and to generate a capital receipt for the land attached, a lease surrender cost of £0.607m was paid by the Council to the Farm's tenant during 2019/20. As this cost can be offset against the capital receipt it was carried forward as a payment in advance to match the receipt in a future year.

19. The above accounting treatment though does not recognise the lease surrender cost as an expense in the comprehensive income and expenditure statement. In

theory until the capital receipt is generated, this is just a normal revenue cost to be recognised in the usual way, which needs to be realised at the point of contractual exchange i.e. in 2019/20. As the cost is part of a future profit/loss on disposal the transaction does not count against the general fund balance in year and can be reversed out via the Movement in Reserves statement as a negative carry forward against usable capital receipts reserve.

20. The accounting treatment behind this is complex and would affect all of the primary financial statements, as well as many of the notes to the accounts. It would also impact on the capital financing outturn position for the Council as less capital receipts should have been used and more borrowing undertaken if the expense was carried forward against the usable capital receipts reserve. Given these issues, Officers are proposing that the accounts are not adjusted for this transaction given that it is only 7% of the Council's materiality threshold.

Interest Accruals

21. The traditional accounting treatment for interest owed on long-term borrowing at the financial year-end was to account for these as creditors (amounts owed) to lenders, with the amount of principal outstanding on the loan recorded separately in the Balance Sheet.

22. From 2007 and with the introduction of international financial reporting standards the accounting treatment changed to that of amortised cost for long terms loans. This means that the carrying value of the loan should be equivalent to the amount initially recognised at the contract date, less any principal repayments made plus any interest owed at the balance sheet date. The Council has continued to follow the traditional method of accounting treatment from 2007 to 2020 without this being identified in previous audits.

23. The issue has been raised as part of this year's audit and as a result and to ensure compliance in future years, it is proposed that the accounts are changed. This is a cosmetic adjustment between creditors and long-term loans and only affects a small number of disclosure notes. The amount involved for 2019/20 is £1.089m.

Disclosure Changes

24. There are two main disclosure changes that are required in the audited accounts. These relate to a specific disclosure on the going concern basis of the preparation of the financial statements and a full disclosure around the leasing arrangements for 1 & 2 Centre Square. There are references to these in other parts of the accounts but given their relative importance. However, these are important issues for the Council and it has been agreed to give these higher prominence so users of the accounts can understand their significance better.

25. **Going Concern** – Given the current Covid-19 pandemic, there has been much discussion in the media around the impact on individual local authority financial positions and subsequent budget setting processes. This is on the back of more than a decade of austerity and savings proposals as central government funding has reduced and there has been a greater emphasis on local taxation and use of earmarked reserves.

26. Because of these pressures and a number of high profile cases of financial difficulty in local government, there is a greater scrutiny on whether individual authorities are going concerns in the medium term. IAS1 relating to the 'Presentation of Financial Statements' indicates that for each set of accounts, Management should make an assessment of an entities ability to continue as a going concern into the foreseeable future. As Covid-19 could threaten this assumption, specific disclosure is required in the accounting policies, as to why management has come to this conclusion for the Council.
27. In previous years, this has been implicit due to the framework that local authorities work within and has not needed additional information. For 2019/20, this needs to be more explicit due to the risk presented by Covid to local income streams. An additional and comprehensive disclosure has therefore been included in Note 1 on accounting policies to satisfy this requirement.
28. **Centre Square leases** - During 2019/20 the Council entered into leasing arrangements for buildings 1 & 2 at Centre Square. The creation of high quality accommodation in the Town Centre is a key strand of the Mayor's strategic plan. Contracts were signed by the Council to lease these buildings during the financial year with financial commitments in place for a 35-year period.
29. As the risks and rewards of the leases fall mainly to the Council, the buildings have been accounted for in the same way as if the property was owned.
30. Although the accounting has been undertaken in line with the Code of Practice requirements, the value of the asset is material in the Balance Sheet and not enough details of this transaction have been disclosed in the draft accounts. More information on these transactions are now included in the leasing note.
31. Also minor changes have been made to the following disclosure notes following audit testing. These relate to the following:
- Related Party Transactions
 - Dedicated Schools Grant
 - Property Plant & Equipment
 - Financial Instruments
 - Debtors & Creditors
 - Officers Remuneration
32. Further details can be provided to Members on these disclosure note changes if these are required.

Pension Fund Accounts

33. Although the Pension Fund accounts are subject to a separate audit from the Council's accounts, they are included within Middlesbrough's Statement of Accounts due to its role as the administering authority.
34. The main issue in the Pension Fund accounts because of the external audit results to the overstatement of assets in the draft accounts by £32.9m or 0.88%. This was due to an error in the information provided by one of the Fund's external managers plus a double count as part of the preparation process for the accounts.

35. A number of disclosures have also been given greater focus given Covid-19 and its impact on the pension fund accounts. These include the impact of material valuation uncertainty on the Fund, the going concern basis for the preparation of the financial statements (see the Council issue highlighted above) and a post balance sheet event note to indicate that the losses on the fund experienced in February and March 2020 were mainly recovered in the first quarter of 2020/21. Again, these were implicit within the draft accounts but are now more explicit and extensive in the revised set of accounts.
36. The revised Statement of Accounts post audit for 2019/20 is attached to this report as **Appendix 1** with an updated set of summary accounts (which is not subject to audit) as **Appendix 2**. After approval by the Committee and sign off by the Director of Finance, these documents will replace the current draft set of accounts on the Council's website as its formal external financial reporting record for the year once the audit opinion on the accounts has been received.

What decision(s) are being asked for?

37. The proposed decision is for Members to approve the Council's Statement of Accounts for 2019/20 following external audit.

Why is this being recommended?

38. It is a statutory requirement of the Accounts and Audit Regulations 2015 – (Coronavirus amendments 2020) that the audited 2018/19 Statement of Accounts are approved by Members of the Committee and published on the Council's website on or before 30 November 2020. In order to comply with the regulations the Chief Finance Officer and Chair of the Committee should sign the Statement of Responsibilities confirming the approval of the accounts and the authorisation to issue these as a public document.

Other potential decisions and why these have not been recommended

39. This is a statutory decision to approve the Statement of Accounts so no other options are available for the Committee to consider.

Impact(s) of recommended decision(s)

40. Approval of the audited accounts demonstrates that the Council is fully compliant with the requirements of the Accounts & Audit Regulations 2015 and the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20. The Code of Practice is seen as best practice for local authority financial reporting and compliance ensures that the accounts present a true and fair view of the financial position and transactions of the Council as at 31 March 2020 and during the year

Legal

41. Compliance with relevant statutory deadlines for external financial reporting.

Financial

42. The Audited Statement of Accounts is consistent with the Council's Medium Term Financial Plan and its assumptions regarding its reserves and balances

Policy Framework

43. The report forms part of the framework that ensures the Council's corporate governance arrangements are fit for purpose, ensuring the Council is best placed to support delivery of the Mayor's vision.

Equality and Diversity

44. There are no direct implications arising from this report on equality and diversity.

Risk

45. Failure to approve and publish the accounts by 30th November 2020 in line with the statutory requirements would lead to reputational damage to the Council and possible Government intervention.

Actions to be taken to implement the decision(s)

46. Following approval, the Audited Statement of Accounts will be published on the Council's website in line with statutory requirements.

Appendices

Appendix 1 – 2019/20 Audited Statement of Accounts.

Appendix 2 – 2019/20 Summary Statement of Accounts

Background papers

Body	Report title	Date
Corporate Affairs & Audit Committee	Draft Statement of Accounts – 2019/20	30 th July 2020

Contact: Justin Weston, Head of Finance & Investments

Email: Justin_weston@middlesbrough.gov.uk

This page is intentionally left blank

Middlesbrough Council 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							
Page 02	Page 24	Page 30	Page 92	Page 96	Page 98	Page 136	Page 159

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 under [Statement of Accounts](#).

The Council's Corporate Affairs and Audit Committee will consider the Accounts for approval on 26 November 2020. The External Auditor's Report to the Committee will confirm whether the accounts provide a true and fair view of the Council's financial position and transactions and any issues or amendments made as part of the audit process.

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).

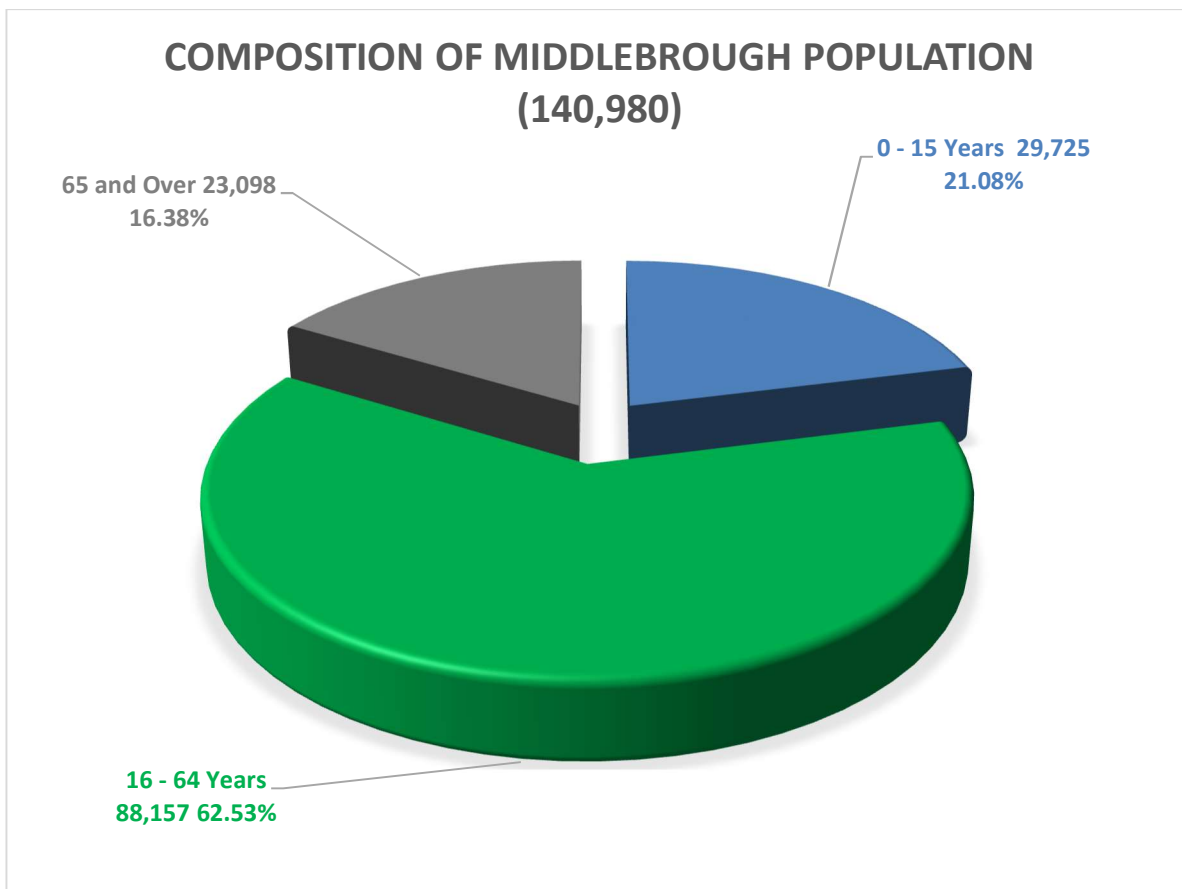
At 31st March 2020, the United Kingdom was in the early stages of an unprecedented public health pandemic due to Covid-19. Although most of the long-term effects of the virus and a return to normal are at present unknown and will affect predominantly future financial years the narrative report and the 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:

	Middlesbrough	North East	Great Britain
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) until mid-March and the Covid-19 pandemic and subsequent national lockdown. Virtual meetings started again in June 2020.

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:

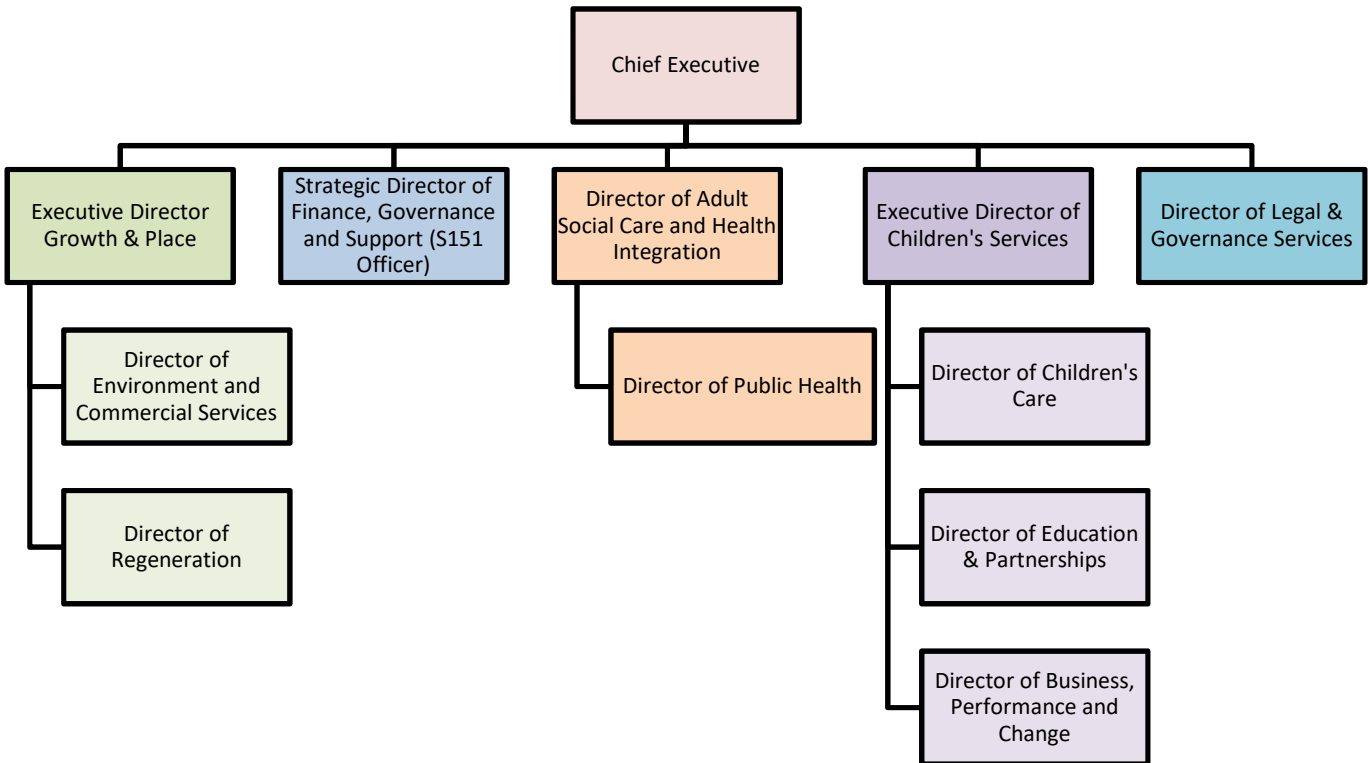
Elected Members	47
Mayor Andy Preston (Independent)	1
Middlesbrough Independent Councillor’s Association	15
Middlesbrough Independent Group	8
Labour	20
Conservative	3

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 management structure at 31st March 2020 is set out below:



The Strategic Director of Finance, Governance and Support left the Council in June 2020 and was replaced by a new Director of Finance post in August 2020 following a management review by the Chief Executive.

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;
- Tees Advanced Manufacturing Park (TeesAMP);
- 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:

Business Imperatives	
Priority	
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
Physical Regeneration	
Priority	
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
Social Regeneration	
Priority	
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 the Tees Valley Combined Authority (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 opinions 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 some of the 2019/20 financial year, 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.

In addition, there is more uncertainty in relation to the valuation of assets and liabilities within the accounts at 31st 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 impact of the Country's departure from and future relationship with the European Union is still being developed. Planning still continues within the Council, particularly around a 'no deal' scenario with contingency plans already developed. What the eventual agreed arrangements will be and what this might mean in financial terms, subsequent risks and impact on the Council's budget and operations are 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 going forwards. 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 will be a one-year funding agreement based on the old system and is expected just before Christmas, with the earliest any new system could be introduced being 1 April 2022.

Middlesbrough Development Company

During 2018/19, the Council created MHomes, a Housing Delivery Vehicle (HDV) as a local authority trading wholly owned company limited by shares with the council as the sole shareholder. Following rebranding in mid 2019 the name of the company was changed to Middlesbrough Development Company (MDC). During 2019/20, the Board of Directors of MDC has met 6 times.

It has taken the following significant decision:

- £3.5m investment into redeveloping Tollesby Shops

During 2019/20 £0.65m was transferred to MDC 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:

	£m
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
Total net revenue budget in 2019/20	111.926

Budget Outturn 2019/20

The Budget Outturn position was reported to Executive on 16th 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
Revenue outturn	111,926	118,517	6,591

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 20th March. At the 31st 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 27th 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 20th March. By 31st 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 £59.717 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	50,664	(9,860)
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)
Total	71.831	59.717	(12.114)

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 £59,717,000 (83%) 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, plus a lower capitalised spend value on the centre square building leases. 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 31st 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	97,557
(50,694)	Current Liabilities	(100,165)
(351,481)	Long Term Liabilities	(465,554)
92,172	Net Assets	(11,349)
(46,666)	Usable Reserves	(41,934)
(45,506)	Unusable Reserves	53,283
(92,172)	Total Reserves	11,349

The key headline messages to note in relation to the Balance Sheet at 31st 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 is now in a negative net worth position (i.e. the liabilities are greater than the assets held by the Council by £11m following a £103m 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 £284m in total. An increase of £84m 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 downward revaluations on the more recent capital investment schemes undertaken by the Council, including Tees Advanced Manufacturing Park (TeesAMP). This is held at fair value (determined by future lease arrangements and tenancies that are only just being established) rather than the cost of the building. 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.

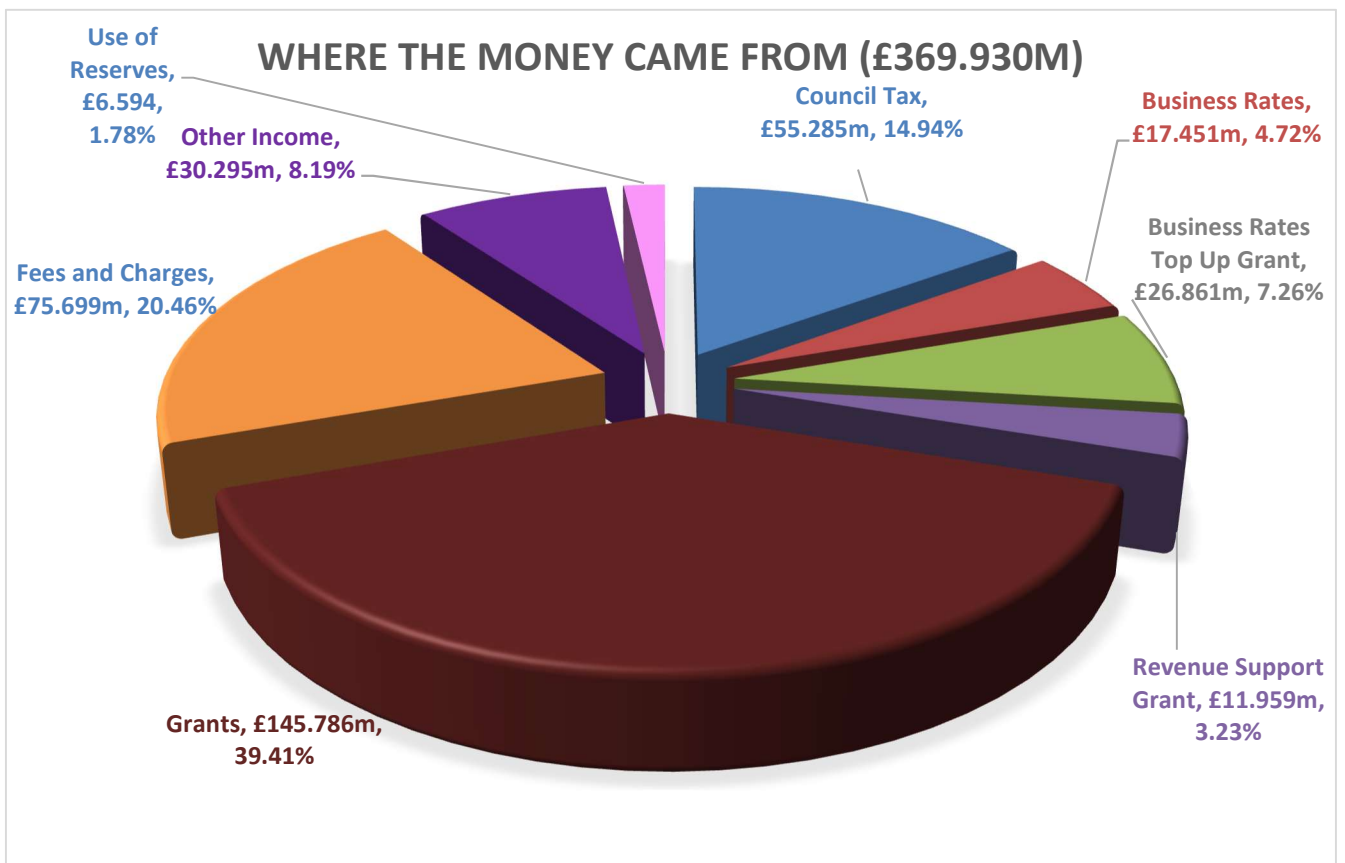
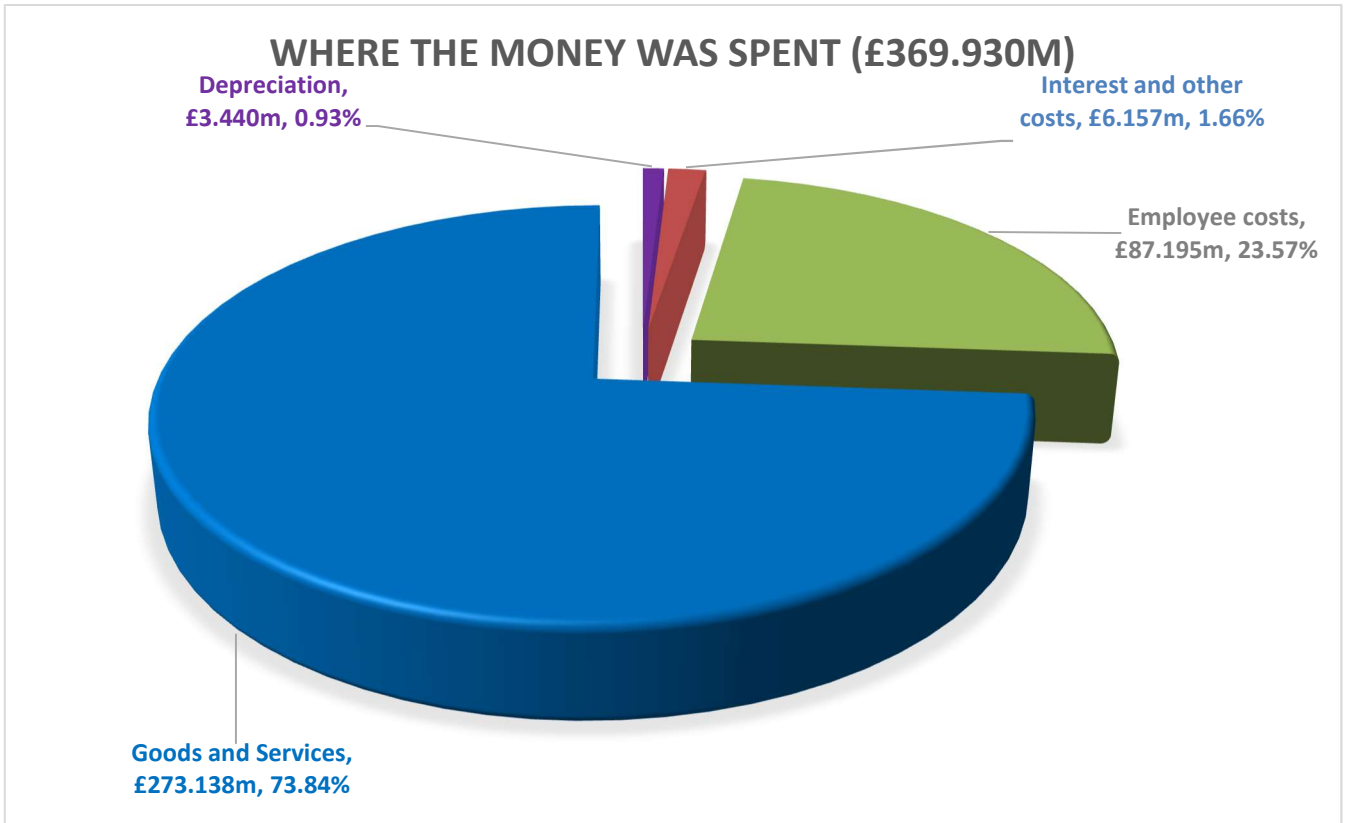
Independent Auditor's Report to the Council - the external auditor, Ernst & Young LLP have prepared this report which is included after the accounts have been audited.

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 will be published with the audited accounts.

The **Core Financial Statements** comprise:

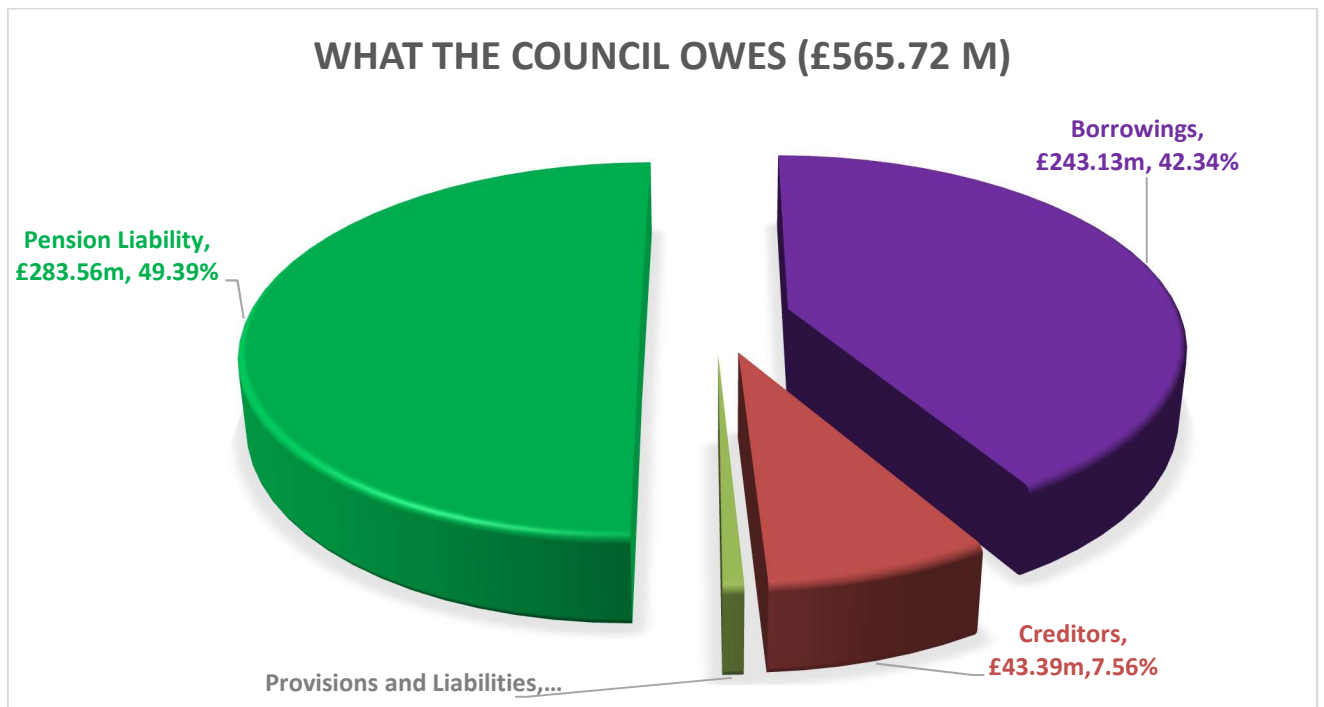
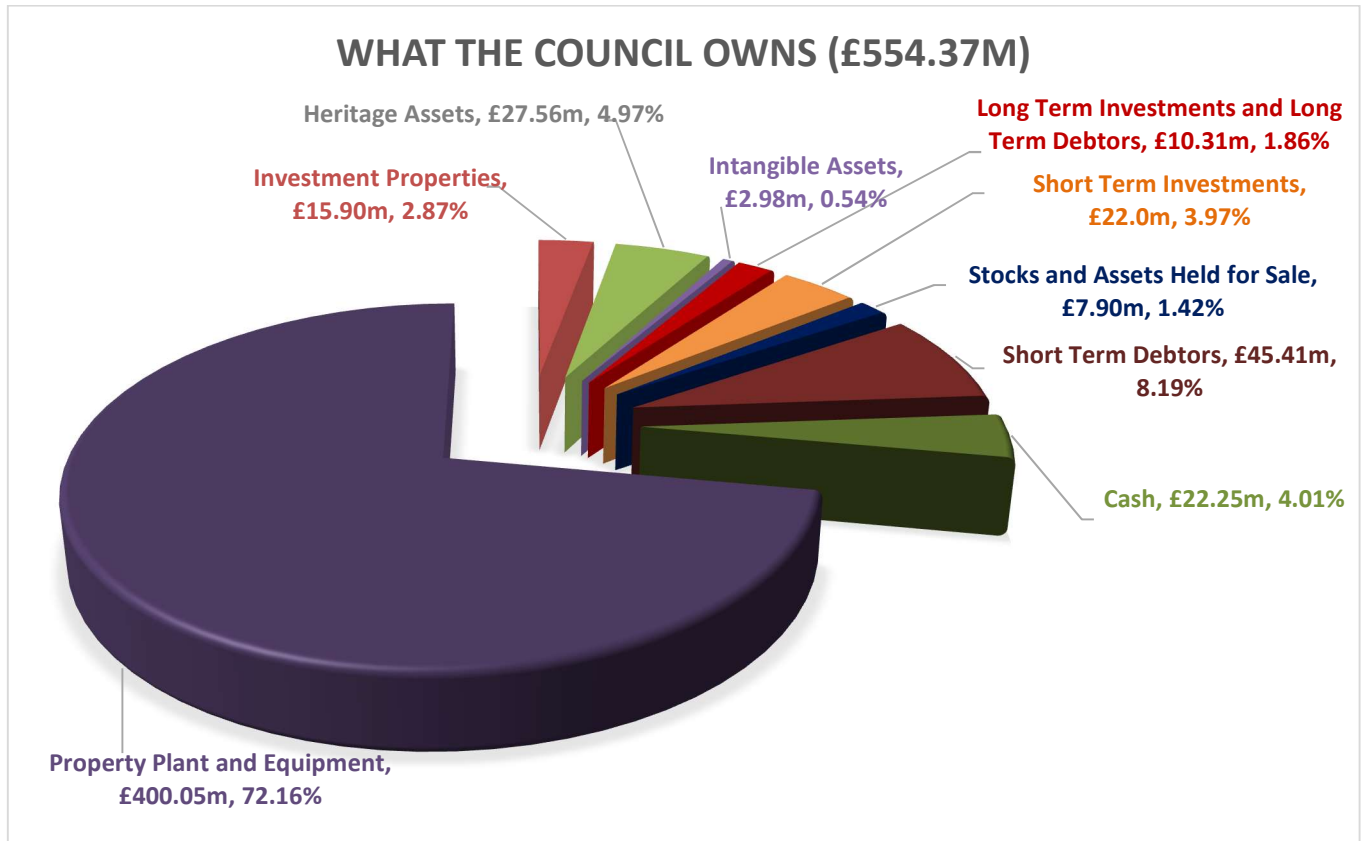
- The **Comprehensive Income and Expenditure Statement** – shows the income and expenditure of the Council in line with statutory regulations and CIPFA Accounting Code of Practice requirements.
- The charts below and overleaf illustrate where the money has come from and how it has been spent.

- The totals in the financial statement are higher than those set out below (expenditure by £77m and income by £24m) 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:



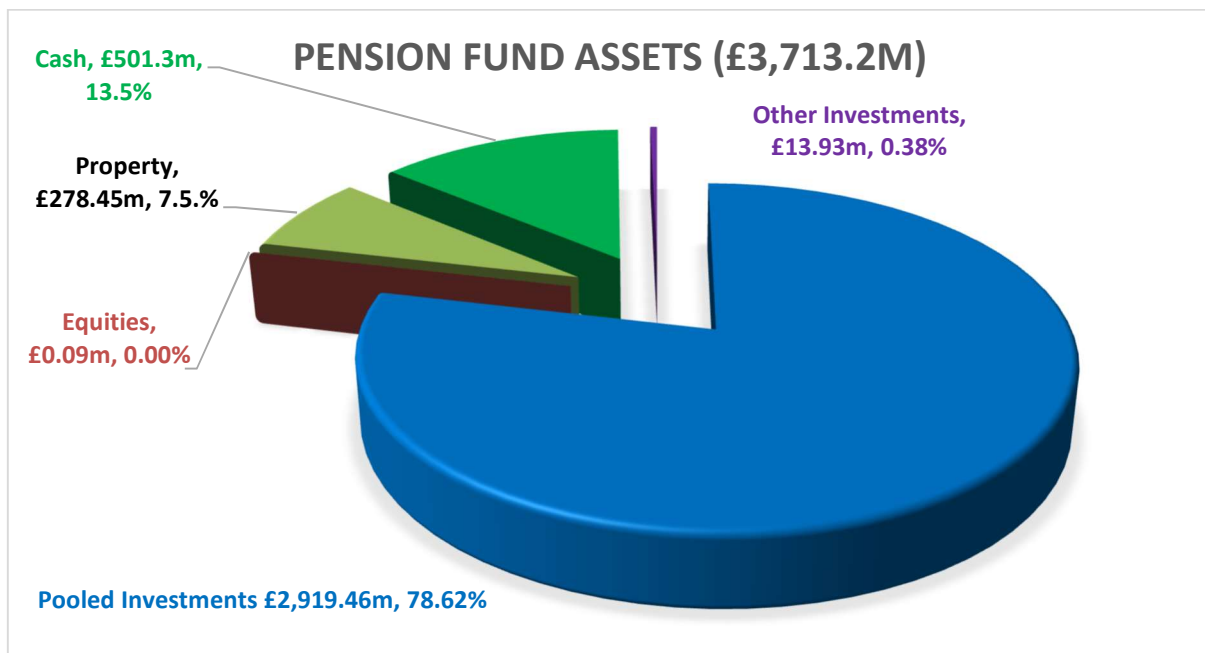
- The **Movement in Reserves Statement** - this statement shows the movement in the year on the different reserves held by the Council, split into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves (arising mainly as a result of technical 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. At the end of Quarter 1 of 2020/21 most of this value had been recovered as financial markets stabilised post national lockdowns.

The following chart summarises the assets of the Fund at 31st 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 (Director of Finance);
- 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 Director of Finance 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 Director of Finance 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 Director of Finance 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.

Ian Wright
Director of Finance
Middlesbrough Council

26 November 2020

Jon Rathmell
Chair of Corporate Affairs & Audit Committee

26 November 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 (Director of Finance); 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 Director of Finance 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 Director of Finance 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.

Ian Wright

Director of Finance

Middlesbrough Council

26th November 2020

David Coupe

Chair of the Teesside Pension Fund Committee

26th November 2020

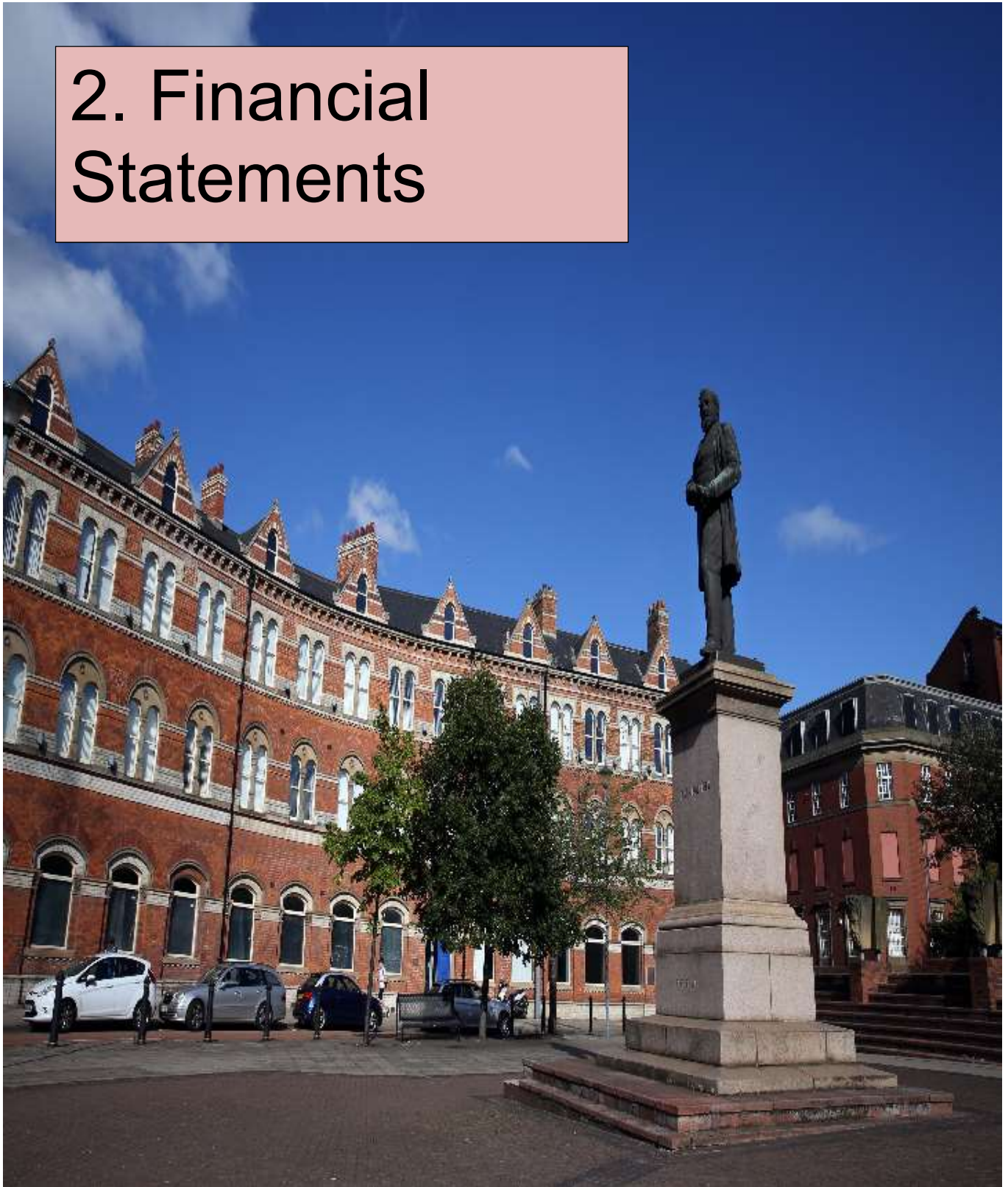
Auditor's Report – Middlesbrough Council

The Auditors report will follow once the Audit has been concluded.

Auditor's Report – Teesside Pension Fund

The Auditors report will follow once the Audit has been concluded.

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
Balance at 1st April 2019	(11,904)	(21,525)	(77)	(13,160)	(46,666)	(45,506)	(92,172)
<u>Movement in reserves during 2019/20</u>							
Total Comprehensive Income and Expenditure	44,178		0	0	44,178	59,343	103,521
Adjustments between accounting basis & funding basis under regulation (note 6)	(39,126)		(67)	(252)	(39,445)	39,445	0
Transfers to/(from) other reserves	(2,548)	2,214	0	334	0	0	0
Net Decrease / (increase) in year	2,504	2,214	(67)	82	4,733	98,788	103,521
Balance at 31st March 2020 carried forward	(9,400)	(19,311)	(144)	(13,078)	(41,933)	53,282	11,349

To aid understanding from the 2019/20 financial statements onwards, the revenue reserves of the Council have been analysed between the general fund balance (available for general purposes) and other earmarked revenue reserves (unallocated income earmarked for a specific purpose).

2018/19	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
Balance at 1st April 2018	(15,152)	(26,321)	(2)	(7,941)	(49,416)	(105,009)	(154,425)
Movement in reserves during 2018/19							
Total Comprehensive Income and Expenditure	96,235		0	0	96,235	(33,982)	62,253
Adjustments between accounting basis & funding basis under regulation (note 6)	(88,191)		(75)	(5,219)	(93,485)	93,485	0
Transfers to/(from) other reserves	(4,796)	4,796	0	0	0	0	0
Net Decrease / (increase) in year	3,248	4,796	(75)	(5,219)	2,750	59,503	62,253
Balance at 31st March 2019 carried forward	(11,904)	(21,525)	(77)	(13,160)	(46,666)	(45,506)	(92,172)

The General Fund Balance and earmarked revenue reserves have also been disaggregated in the 2018/19 comparator figures to show the year on year movement when compared to 2019/20.

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 Restated					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		48,327	(4,682)	43,645
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		1,094	(8,776)	(7,682)
400,361	(234,988)	165,373	Total Cost of Service		397,918	(227,739)	170,179
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	37,822	(30,098)	7,724
0	(135,982)	(135,982)	Taxation and Non Specific Grant Income	10	0	(134,685)	(134,685)
502,621	(406,386)	96,235	(Surplus) or Deficit on Provision of Services		437,932	(393,754)	44,178
			<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			66,655
		(4,225)	Depreciation written out to the Revaluation reserve	22			(4,572)
		(33,982)	Other Comprehensive Income and Expenditure				59,343
		62,253	Total Comprehensive Income and Expenditure				103,521

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
433,636	Total Long Term Assets		456,813
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	22,245
60,711	Total Current Assets		97,557
(13,203)	Short Term Borrowing	28	(55,247)
(35,933)	Short Term Creditors	34	(43,392)
(1,558)	Short Term Provisions	35	(1,526)
(50,694)	Total Current Liabilities		(100,165)
10,017	Net Current Assets / (Liabilities)		(2,608)
(1,029)	Long Term Provisions	35	(981)
(149,344)	Long Term Borrowing	28	(179,423)
(1,733)	Other Long Term Liabilities	28	(1,589)
(199,375)	Pension Liability	38	(283,561)
(351,481)	Total Long Term Liabilities		(465,554)
92,172	Net Assets/(Liabilities)		(11,349)
(46,666)	Usable Reserves	36	(41,934)
(45,506)	Unusable Reserves	37	53,283
(92,172)	Total Reserves		11,349

Core Statements - Cash Flow Statement

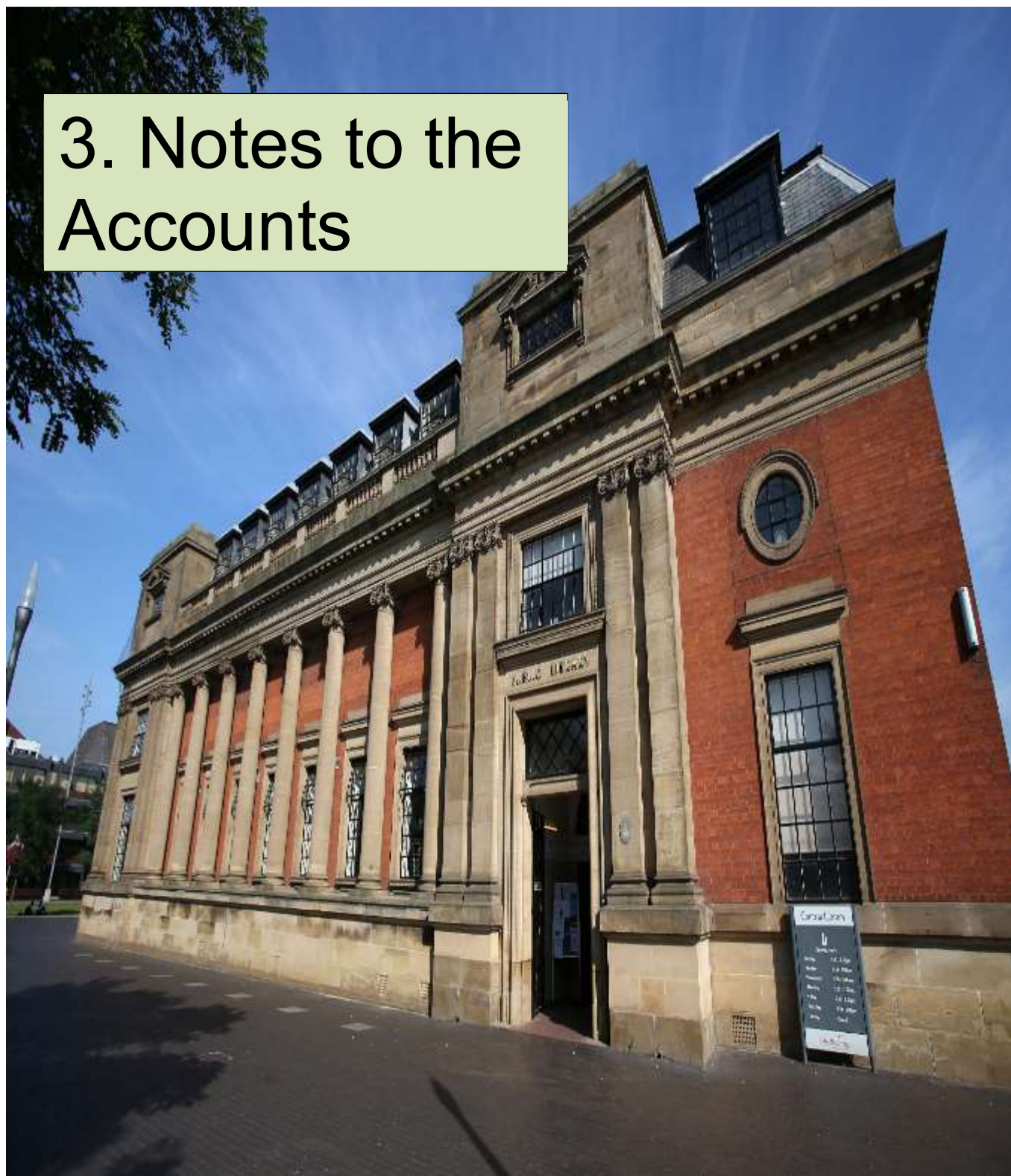
This Statement shows the changes in cash and cash equivalents held by the Council during the financial year. It shows how the Council generates and uses cash and cash equivalents by classifying cash flows into operating, investing and financing activities.

Year to 31 March 2019 £000		Note	Year to 31 March 2020 £000
(96,235)	(Deficit) on provision of services transferred to the General Fund		(44,178)
	Adjustment for items not affecting cash flow		
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	(418)
(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	7,757
14,428	Net of Interest changes applied to the Pension Scheme Deficit	38	9,774
543	Movement in Provisions	35	(81)
18,565	Surplus on provision of services after non cash adjustments		9,282
(4,467)	Adjustments for items that are Financing or Investing Activities		(1,232)
	Other operating cash flows		
(323)	Cash absorbed by the reduction in Creditors	34	7,939
(3,754)	Cash absorbed by the increase in Debtors	31	(5,661)
(196)	Cash absorbed by the increase in Inventories	32	(109)
9,825	Net cash flow from Operating Activities		10,219
(19,495)	Investing Activities	45	(62,781)
3,387	Financing Activities	45	71,979
(6,283)	Net increase/(decrease) in Cash and Cash Equivalents		19,417
9,111	Cash and Cash Equivalents at the start of the period	33	2,828
2,828	Cash and Cash Equivalents at the end of the period	33	22,245

The cash flow for Operating Activities includes the following:-

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

3. Notes to the Accounts



Central Library

Notes to the Accounts

Note	Description	Page
	Notes to the Accounts	
	Expenditure & Funding Statement	33
1	Accounting Policies	35
2	Accounting Standards Issued but not yet adopted	41
3	Assumptions made about the future and other major sources of estimation uncertainty	42
4	Critical Judgements in applying Accounting Policies	46
5	Events after the Balance Sheet Date	47
	Notes Supporting the Movement in Reserves Statement	
6	Adjustments Between Accounting Basis and Funding Basis under Regulations	49
7	Earmarked Reserves	51
	Notes Supporting the Comprehensive Income and Expenditure Statement	
8	Other Operating Income and Expenditure	53
9	Financing and Investment Activities	53
10	Taxation and Non-Specific Grant Income	54
11	Grant Income	54
12	Dedicated Schools Grant	56
13	Officers' Remuneration	57
14	Members' Allowances and Expenses	60
15	Trading Operations	60
16	Audit Fees	60
17	Agency Services	60
18	Related Parties	61
19	Pooled Budgets	62
	Notes Supporting the Balance Sheet	
20	Capital Expenditure and Capital Financing	64
21	Capital Commitments	65
22	Property, Plant and Equipment	65
23	Revaluations and Impairments of Property, Plant and Equipment	69
24	Heritage Assets	70
25	Investment Properties	71
26	Intangible Assets	72
27	Assets Held for Sale	73
28	Financial Instruments: Balances	74
29	Financial Instruments: Fair Value and Risks	75
30	Financial Instruments: Income and Expenditure	78
31	Debtors (Short and Long Term)	79
32	Inventories	79
33	Cash and Cash Equivalentents	79
34	Short Term Creditors	80
35	Provisions	80
36	Usable Reserves	80

37	Unusable Reserves	81
38	Pension Schemes Accounted for as Defined Benefit Scheme	83
39	Pension Scheme Accounted for as a Defined Contribution Scheme	87
40	Leases - Council as Lessor	87
41	Leases - Council as Lessee	88
42	Contingent Liabilities	89
43	Contingent Assets	89
44	Trust Funds	90
	Notes Supporting the Cash Flow Statement	
45	Cash Flow Statement - Investing and Financing Activities	91

Notes to the Accounts

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 Restated				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	37,832	4,192	42,024
21,049	24,400	45,449	Environment & Commercial Services	21,037	22,608	43,645
7,326	17,676	25,002	Finance, Governance & Support	11,606	8,079	19,685
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)	(7,584)	(7,682)
111,724	53,649	165,373	Net Cost of Service	118,521	51,658	170,179
(111,285)	42,147	(69,138)	Other Income and Expenditure	(111,927)	(14,074)	(126,001)
439	95,796	96,235	Surplus or Deficit on Provision of Services	6,594	37,584	44,178
		15,152	Opening Uncommitted General Fund Balance			11,904
		(439)	Less/Plus Surplus or (Deficit) on General Fund Balance in year			(6,594)
		(2,811)	Contribution/(use) in year			4,090
		11,904	Closing Uncommitted General Fund Balance			9,400

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.

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	659	4,192
Environment & Commercial Services	15,781	3,002	3,825	22,608
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)
Net Cost of Services	41,378	12,899	(2,619)	51,658
Other Income and Expenditure from the Expenditure and Funding Analysis	(16,528)	4,635	(2,181)	(14,074)
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	24,850	17,534	(4,800)	37,584

Adjustments between Funding and Accounting Basis				
Restated 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)
Net Cost of Services	30,730	17,483	5,436	53,649
Other Income and Expenditure from the Expenditure and Funding Analysis	39,980	5,055	(2,888)	42,147
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	70,710	22,538	2,548	95,796

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.

Expenditure & Funding Analysed by Nature

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

Expenditure & Income Analysed by Nature		
	2018/19 £000	2019/20 £000
Expenditure		
Employees	157,520	149,189
Other Service Expenditure	244,276	238,053
Depreciation and other Capital Charges	95,567	44,423
Interest Payments	5,124	6,127
Precepts and Levies	134	140
Total Expenditure	502,621	437,932
Income		
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)	(70,657)
Total Income	(406,386)	(393,754)
Deficit on the Provision of Services	96,235	44,178

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 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.

Basis of Preparation

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

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

This included consideration of the following:

- Loss of income on a service by service basis, due to temporary closures, reduction in demand, and increased collection losses.
- Additional expenditure on a service by service basis with the provision of new and expanded services in response to the crisis (such as support to the social care market and the creation of the local support hub).
- Changes to government policy, e.g. changes to business rate reliefs, guidance on supplier relief, additional funding for local authorities, and additional responsibilities which sit alongside this.
- The impact on the Council's investment strategy, e.g. delays caused by government restrictions, whether there is a need to rephase work for other reasons and the re-prioritisation of the earmarked reserve for future capital plans to support the general fund balance.
- The impact of all of the above on the Council's cash flow and treasury management processes, including availability of liquid cash and timing of borrowing plans.
- The estimated overall impact on the Council's General Fund and Medium Term Financial Plans and savings proposals.

There has been a range of interventions introduced by central government to support the Council's financial position as a result of the pandemic:

- In March 2020 the Council received £5.2m being its share of local support grant specifically to support local authorities with the additional costs and lost income due to the pandemic.
- At 31st March 2020 £4.8m was moved into a new earmarked reserve ready for utilisation during the 2020/21 financial year when a greater financial impact is expected.
- A second tranche of the local support grant of £3.9m was received in May 2020, a third tranche of £1.7m awarded in July 2020 and a fourth tranche of £4.8m bringing the total received to £15.6m.
- After the carry forward from 2019/20 the Council currently has £14.8m of Local Support Grant funding available in 2020/21.

The net total impact of Covid-19 on the General Fund is estimated to be a cost pressure of £11.3m in 2020/21, although this is increasing on a regular basis. By way of context, the Council's General Fund balance as at 31st March 2020 was £9.4m, the minimum level advised by the Chief Finance Officer. Any surplus on Covid funding in 2020/21 will be carried forward to support next year's budget and the ongoing impact of the pandemic.

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

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 do not cause any significant change in accounting practice for the Council in 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.

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 | 30-60 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, 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

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
Maintained	9	0	3	12
Academies (not under the control of LA)	32	7	2	41
Total	41	7	5	53

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.

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.

Local Government Pension Scheme

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. There is increased valuation uncertainty on pension fund assets at 31st March 2020 due to the Covid-19 pandemic.

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 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 and in the pension fund statements. This has been catered for by ongoing updates of the Medium Term Financial Plan. Also, the vast majority of the loss associated with the Teesside Pension Fund in February and March on asset values was reversed in the 1st quarter of 2020/21.

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
Adjustments involving the Capital Adjustment Account:				
With the Comprehensive Income and Expenditure Statement				
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)	418	0	0	418
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)
Total with the Comprehensive Income and Expenditure Statement	(26,082)	0	(252)	(26,334)
Amounts arising elsewhere				
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
Total Amounts arising elsewhere	3,447	1,165	0	4,612
Total Amounts involving the Capital Adjustment Account	(22,635)	1,165	(252)	(21,722)
Amounts involving Deferred Capital Receipt Reserve				
Transfer on receipt of cash	0	0	0	0
Amounts involving the Pension Reserve				
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)
Amounts with the Compensated Absences Adjustment Account				
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)
Amounts between Usable Reserves				
Cash proceeds on disposal of Non-Current Assets	1,232	(1,232)	0	0
Total Adjustments for the year ended 31 March 2020	(39,126)	(67)	(252)	(39,445)

2018/19	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Usable Reserves
	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:				
With the Comprehensive Income and Expenditure Statement				
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)
Total with the Comprehensive Income and Expenditure Statement	(75,179)	0	(11,290)	(86,469)
Amounts arising elsewhere				
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
Total Amounts arising elsewhere	3,035	4,392	6,071	13,498
Total Amounts involving the Capital Adjustment Account	(72,144)	4,392	(5,219)	(72,971)
Amounts involving Deferred Capital Receipt Reserve				
Transfer on receipt of cash	0	0	0	0
Amounts involving the Pension Reserve				
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	1,543
Amounts with the Compensated Absences Adjustment Account				
Reversal of Accrual made at previous year end (Note 37)	1,562	0	0	1,562
Creation of accrual for current year end (Note 37)	(1,081)	0	0	(1,081)
Amounts between Usable Reserves				
Cash proceeds on disposal of Non-Current Assets	4,467	(4,467)	0	0
Total Adjustments for the year ended 31 March 2019	(88,191)	(75)	(5,219)	(93,485)

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	
Schools Balances	(2,890)	(3,336)	2,986	(3,240)
Development in future Provision of Schools	(96)	0	96	0
Significant Revenue Reserves				
Invest to Save / Change Programme	(2,089)	(201)	1,875	(415)
Revenue Grants Unapplied	(4,101)	(10,738)	4,903	(9,936)
Insurance Fund	(962)	0	602	(360)
Schools Reserves	(476)	(217)	2,758	2,065
Capital Re-Financing Reserve	(175)	0	0	(175)
Public Health Reserve	(20)	0	20	0
Business Rates Reserve	(4,134)	0	2,463	(1,671)
Investment Fund Reserve	(5,629)	0	701	(4,928)
Total Significant Reserves	(17,586)	(11,156)	13,322	(15,420)
Other Revenue Reserves	(953)	(3,885)	4,187	(651)
Total Earmarked Reserves	(21,525)	(18,377)	20,591	(19,311)

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.

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.

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
58,195	Total	960

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)	(418)
23,606	Pension Interest Cost (Note 38)	22,836
39,598	Total Expenditure	37,821
(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)
(30,949)	Total Income	(30,097)
8,649	Total	7,724

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)
(135,982)	Total	(134,685)

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)
(47,712)	Total (note 10)	(45,027)
Revenue Grants Credited to Services		
Department for Education (DfE)		
(53,792)	Dedicated Schools Grant	(48,483)
(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)
Department for Business, Energy and Industrial Strategy (BEIS)		
(167)	BEIS grants	(0)

	Department for Digital, Culture, Media and Sport (DCMS)	
(642)	DCMS grants	(553)
	Department for Work and Pensions (DWP)	
(70,806)	Housing Benefit Subsidy	(56,970)
(1,118)	Housing Benefit Admin	(723)
(1,039)	Other Grants	(1,081)
	Department of Health and Social Care (DHSC)	
(16,787)	Public Health	(16,387)
(166)	Other DHSC grants	(166)
	Department for Environment, Food and Rural Affairs (DEFRA)	
(370)	DEFRA grants	(108)
	Department for Transport (DfT)	
(102)	DfT grants	(121)
	Lottery Grants	
(7)	Other Lottery Grants	(40)
	Cabinet Office	
(0)	Elections	(727)
(35)	Other Grants	(104)
	Other Contributions	
(19,379)	South Tees Clinical Commissioning Group	(20,954)
(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)
(192,793)	Total Revenue Grants Credited to Services	(186,596)
(240,505)	TOTAL REVENUE GRANTS	(231,623)
	Capital Grants	
	Department for Education (DfE)	
(1,874)	School Condition Allocation	(147)
(0)	Basic Need	(1,280)
(85)	Other DfE grants	(732)
	Ministry of Housing, Communities and Local Government (MHCLG)	
(2,067)	Disabled Facility	(1,999)
	Department of Health and Social Care (DHSC)	
(0)	Other DHSC grants	(198)
	Department for Transport (DfT)	
(994)	Local transport Plan	(2,840)
(1,813)	Joint Air Quality Unit Early Measures Funding	(0)
(0)	Other DfT Grants	(2,746)
	Tees Valley Combined Authority	
(0)	Other TVCA Grants	(4,671)
(7,170)	Other Grants	(1,747)
	Other Contributions	
(4,615)	Housing Development	(709)
(616)	Other Contributions	(1,043)
(19,235)	Total Capital Grants	(18,112)
(259,739)	TOTAL GRANTS 2019/20	(249,735)

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)
(19,235)	Total Capital Grants	(18,112)

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			90,708
Total DSG after Academy recoupment for 2019/20			(48,358)
Plus : Brought forward from 2018/19			1,683
Less : Carry Forward to 2020/21 agreed in advance			0
Agreed initial budgeted distribution for 2019/20	(15,776)	(30,899)	(46,675)
In year adjustments	0	0	0
Final budgeted distribution for 2019/20	(15,776)	(30,899)	(46,675)
Less : Actual central expenditure	15,740	0	15,740
Less : Actual ISB deployed to schools	0	33,718	33,718
Balance Carried Forward	(36)	2,819	2,783

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	Compensation for loss of office	Total including pensions contribution
	£	£	£	£
Chief Executive – Tony Parkinson	148,837	22,733	0	171,570
Director of Public Health (left October 2019)	60,071	9,191	0	69,262
Director of Public Health (started November 2019)	22,531	0	0	22,531
Strategic Director of Finance, Governance and Support / Section 151 Officer	103,161	15,756	0	118,917
Director of Adult Social Care and Health Integration	95,005	14,536	0	109,541
Executive Director Growth and Places	120,556	18,428	0	138,984
Executive Director of Children's Services (left February 2020)	139,971	16,892	72,000	228,863
Head of Legal Services – Monitoring Officer (left February 2020)	49,297	7,509	29,769	86,575
Director of Legal & Governance Services – Monitoring Officer (appointed January 2020)	18,857	2,885	0	21,742
Director of Education and Partnerships	80,906	12,378	0	93,284

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	167,940
Director of Public Health	105,279	16,108	0	121,387
Strategic Director of Finance, Governance and Support / Section 151 Officer	100,954	15,447	0	116,401
Director of Adult Social Care and Health Integration	86,232	13,193	0	99,425
Executive Director Growth and Places	118,090	18,066	0	136,156
Executive Director of Children's Services	116,910	17,887	0	134,797
Head of Legal and Democratic Services – Monitoring Officer (left February 2019)	58,835	8,977	0	67,812
Head of Legal Services – Monitoring Officer (appointed February 2019)	8,208	1,282	0	9,490

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	30	50,000 to 54,999	32	9	41
6	8	14	55,000 to 59,999	15	4	19
9	4	13	60,000 to 64,999	7	3	10
3	6	9	65,000 to 69,999	7	2	9
5	3	8	70,000 to 74,999	2	5	7
2	1	3	75,000 to 79,999	1	0	1
0	0	0	80,000 to 84,999	1	0	1
4	0	4	85,000 to 89,999	3	0	3
0	0	0	90,000 to 94,999	0	0	0
0	0	0	95,000 to 99,999	0	0	0
0	0	0	100,000 to 104,999	0	0	0
0	0	0	105,000 to 109,999	0	0	0

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
52	31	83	Total	70	23	93

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 5 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
Total	7	19	61	53	68	72	1,151	1,556

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
567	Total	523

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	(231)
(1,330)	1,208	(122)	Parking	(1,344)	984	(360)
(4,978)	4,907	(71)	Schools Catering	(4,739)	4,555	(184)
(11,946)	10,800	(1,146)	Total	(11,262)	9,275	(1,988)

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
104	Total	104

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. The Strategic Director of Finance, Governance & Support was also a Director of Horizons Academy Trust and also Veritau Tees Valley Ltd

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 - £13.8 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. The Middlesbrough Development Company 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. 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
Middlesbrough Voluntary Development Agency	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
Veritau Tees Valley Ltd	65	0	45	0
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)	Balance Brought Forward	0
	Funding Provided to the Pooled Budget	
(8,175)	By the Council	(10,691)
(11,061)	By South Tees Clinical Commissioning Group	(11,548)
(19,527)	Total Funding	(22,239)
	Expenditure met from the Pooled Budget	
16,243	By the Council	18,742
3,087	By South Tees Clinical Commissioning Group	3,022
19,330	Total Expenditure	21,764
197	Capital Amounts allocated to 2020/21	293
0	Net surplus arising on the Pooled Budget to be carried forward	(182)

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)	Balance brought forward	(452)
1,622	Gross Expenditure	1,980
(1,580)	Gross Income	(1,764)
(452)	Balance carried forward	(236)
	Contribution from Partners	
(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)
(1,580)	Total	(1,764)

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
185,173	Opening Capital Financing Requirement	195,235
	Capital Investment	
22,587	Property, Plant and Equipment	37,935
0	Investment Property	12,664
23	Assets Held for Sale	32
1,073	Intangible Assets	1,146
8,723	Revenue Expenditure Funded from Capital under Statute	8,183
32,406	Total Capital Investment	59,960
	Sources of Finance	
(4,391)	Capital Receipts	(1,165)
(2,117)	Revenue Expenditure Funded from Capital under Statute – Grant Received	(1,742)
(12,801)	Government Grants and other contributions applied in year	(16,361)
	Sums Set Aside from Revenue	
(31)	Direct revenue contributions	(7)
(3,004)	MRP/Loans Fund Principal	(3,440)
195,235	Closing Capital Financing Requirement	232,480
	Explanation of Movement in Year	
13,066	Increase in underlying need to borrow (unsupported by government assistance)	40,685
(3,004)	MRP/loans fund Principal	(3,440)
10,062	Increase in Capital Financing Requirement	37,245

The capital investment figure above includes £59.717 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
Tees Advanced Manufacturing Park (TeesAMP)	700
Preventative Services Accommodation	937
LED Street Lighting Upgrade (Phase 2)	417
Joint Air Quality Unit (JAQU) - Winward Way to Cleveland Street	479
Total	6,584

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
Cost or Valuation							
At 1 April 2019	189,403	48,968	37,523	207,099	8,257	6,775	498,025
Additions	5,873	445	2,736	9,633	20	18,962	37,669
Donations	138	0	0	0	0	0	138
Revaluation increases to Revaluation Reserve	(1,988)	4,676	0	0	0	0	2,688
Revaluation decreases to Deficit on Provision of Services	(5,316)	327	0	0	0	(13,615)	(18,604)
Derecognition - Disposals	(1,270)	(1,030)	(1,359)	0	0	0	(3,659)
Assets reclassified (to) Held for Sale	0	289	0	0	0	0	289
Assets reclassified (to)/from Assets – other categories	502	100	0	0	5	(530)	77
At 31 March 2020	187,342	53,775	38,900	216,732	8,282	11,592	516,623

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
Accumulated Depreciation and Impairment							
At 1 April 2019	(5,193)	(63)	(29,791)	(74,514)	0	0	(109,561)
Depreciation charge for the year	(4,879)	(141)	(2,563)	(7,579)	0	0	(15,162)
Depreciation written out to the Revaluation Reserve	4,555	17	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	1,284	10	0	0	0	0	1,294
Derecognition - Disposals	1,264	69	1,242	0	0	0	2,575
Assets reclassified (to)/from Assets Held for Sale	0	(289)	0	0	0	0	(289)
Assets reclassified (to)/from other categories	(2)	2	0	0	0	0	0
At 31 March 2020	(2,971)	(395)	(31,112)	(82,093)	0	0	(116,571)
Net Book Value At 31 March 2020	184,371	53,380	7,788	134,639	8,282	11,592	400,052

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

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
Accumulated Depreciation and Impairment							
At 1 April 2018	(3,861)	(32)	(30,140)	(67,225)	0	0	(101,258)
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
At 31 March 2019	(5,193)	(63)	(29,791)	(74,514)	0	0	(109,561)
Net Book Value At 31 March 2019	184,210	48,905	7,732	132,585	8,257	6,775	388,464

Included in the land and buildings are a number of leisure properties which from 1st April 2016 were transferred to Sport & leisure management (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 below. All properties were revalued at the date of transfer on 1st April 2016.

	Net Book Value at 31 March 2020
	£000
The Manor Youth and Community Centre	986
Neptune Centre	8,130
Rainbow Centre	8,314
Middlesbrough Sports Village	17,831
Golf Course	538
Total	35,799

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	7,788	134,639	8,282	11,592	162,301
Valued at current value as at:							
31 March 2020	27,931	43,743	0	0	0	0	71,674
31 March 2019	40,465	4,072	0	0	0	0	44,537
31 March 2018	34,536	5,160	0	0	0	0	39,696
31 March 2017	64,655	405	0	0	0	0	65,060
31 March 2016	16,784	0	0	0	0	0	16,784
Total Cost or Valuation	184,371	53,380	7,788	134,639	8,282	11,592	400,052

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 reconciling the movement over the year in Property, Plant and Equipment balances.

During 2019/20 the Council has recognised a net downward revaluation of £11.3 million. There were no impairment of assets in 2019-20.

- Downward revaluation of £1.2m on Newham Grange Leisure Farmhouse and Buildings due to a decline in condition
- Downward Revaluation of £13m on TeesAMP. Although this site was not operational at 31st 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 sites.

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 Middlesbrough Institute of Modern Art (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
At 31 March 2020	2,239	8,560	9,012	7,752	27,563
At 31 March 2019	2,082	8,537	9,012	7,751	27,382

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
2,546	Balance at start of the year	2,610
	Additions	
0	Purchases	12,664
0	Donated	
0	Disposals	
64	Net gains/(losses) from fair value adjustments	418
	Transfers	
0	(To)/From Property, Plant and Equipment	212
0	Other Changes	
2,610	Balance at end of the year	15,904

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
(17)	Net Gain	(1,360)

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
	Balance at Start of Year	
10,753	Gross Carrying Amount	11,826
(5,791)	Accumulated amortisation	(7,839)
4,962	Net Carrying amount at start of the year	3,987
1,073	Additions : purchases	1,145
(2,048)	Amortisation for the period	(2,150)
0	Disposals	0
3,987	Net Carrying amount at the end of the year	2,982
	Comprising:	
11,826	Gross Carrying amount	12,972
(7,839)	Accumulated amortisation	(9,990)
3,987	Net Carrying amount at the end of the year	2,982

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

31 March 2019		31 March 2020
£000		£000
	Long Term Assets Held for Sale	
6,700	Balance outstanding at start of year	0
(6,700)	Transferred between Long-Term and Current Assets Held for Sale	0
	Assets newly classified as held for sale	
0	Transferred from Property, Plant and Equipment	0
0	Additions	0
0	Revaluation losses	0
0	Balance outstanding at year end	0

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, 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 fair value and represent loans and loan type amounts where payments of principal and interest take place on set dates and to particular amounts.

Two categories of financial asset recently introduced under IFRS9 are fair value through other comprehensive income and expenditure (FVOCI) and 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 losses 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
		Financial Assets – Loans and Receivables		
		Held at amortised cost (unless indicated)		
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	22,245
309	309	Total Investments	13,450	44,245
		Held as Debtors – amortised cost		
10,884	10,003	Long Term Debtors	0	0
0	0	Short Term Debtors	10,343	9,859
10,884	10,003	Total Debtors	10,343	9,859
11,193	10,312	Total Financial Assets	23,793	54,104
		Financial Liabilities – at Amortised Cost		
		Held as Borrowings		
(149,344)	(179,424)	Long Term Borrowing	0	0
0	0	Short Term Borrowing	(13,203)	(55,247)
(149,344)	(179,424)	Total Borrowings	(13,203)	(55,247)
		Held as Other Payables		
0	0	Short Term Creditors	(5,896)	(6,959)
(1,733)	(981)	Long Term Creditors	0	0
(1,733)	(981)	Total Held as Other Payables	(5,896)	(6,959)
(151,077)	(180,405)	Total Financial Liabilities – at Amortised Cost	(19,099)	(62,206)

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 except for Long Term Investments. 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
		Financial Assets – Loans and Receivables		
13,759	13,582	Held as Investments	44,555	44,555
21,226	21,226	Held as Debtors	19,862	19,862
34,985	34,808	Financial Assets – Loans and Receivables	64,417	64,417
		Financial Liabilities – at Amortised Cost		
(162,547)	(204,445)	Held as Borrowings	(234,671)	(278,731)
(5,896)	(5,896)	Held as Creditors	(7,940)	(7,940)
(168,443)	(210,341)	Financial Liabilities – at Amortised Cost	(242,611)	(286,671)

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 higher 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 lenders, 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 focuses 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
9,212	TOTAL	10,586

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	(55,608)
(12,135)	Between 1 – 2 Years	(25,451)
(18,813)	Between 2 – 5 Years	(23,181)
(33,345)	Between 5 – 10 Years	(32,051)
(12,501)	Between 10 – 15 Years	(15,862)
(9,913)	Between 15 – 20 Years	(7,692)
(4,899)	Between 20 – 25 Years	(8,181)
96	Between 25 – 30 Years	(4,295)
(15,412)	Between 30 – 35 Years	(18,435)
(12,421)	Between 35 – 40 Years	(18,825)
(30,000)	More than 40 Years	(25,090)
(162,546)	TOTAL	(234,671)

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
		Income		
(451)	0	Interest Income	(419)	0
		Expenditure		
0	5,255	Interest Expense		5,682
0	9	Fee Expense		35
0	5,264	Total Expenditure		5,716
	4,813	Net Expenditure for the year		5,297

Note 31 Debtors

31 March 2019		31 March 2020
£000		£000
	Short Term Debtors	
3,558	Central Government Bodies	7,210
7,367	Other Local Authorities	9,640
2,982	NHS Bodies	2,668
46,629	Other entities and individuals	51,949
(21,668)	Bad Debt Provision	(26,057)
38,867	Total	45,410
	Long Term Debtors	
6,167	Cleveland Mall – Holiday Inn	5,794
286	Other Long Term Debtors	228
4,431	The Welding Institute	3,981
10,884	Total	10,003

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	(6,107)	(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	(5,460)	(29)	2,316

Note 33 Cash and Cash Equivalents

31 March 2019		31 March 2020
£000		£000
76	Cash held by the Council	68
(748)	Bank current accounts	177
3,500	Short-term deposits	22,000
2,828	Total	22,245

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	(12,744)
(2,320)	Other Local Authorities	(2,686)
(586)	NHS Bodies	(1,143)
(25,200)	Other Entities and individuals	(26,819)
(35,933)	Total	(43,392)

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)
Total	(2,587)	(715)	795	(2,507)

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	(3,388)
(77)	Capital Receipts Reserve	(145)
(11,904)	Uncommitted General Fund	(9,400)
(21,525)	Earmarked Reserves	(19,311)
(46,666)	Total	(41,934)

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	(145,334)
(2)	Deferred Capital Receipts Reserve	0
199,376	Pensions Reserve	283,560
(860)	Collection Fund Adjustment Account	(482)
1,081	Accumulating Compensated Absences Adjustment Account	896
(45,506)	Total Unusable Reserves	53,283

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

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
Balance at 1 April 2019	(81,266)	(163,835)	(2)	199,376	(860)	1,081	(45,506)
Allocated from Other Comprehensive Income and Expenditure	(7,312)	0	1	66,654	0	0	59,343
Transfers to/(from) Usable Reserves (Note 6)	0	21,722	1	17,530	377	(185)	39,445
Difference between fair value and historical cost depreciation	1,295	(1,295)	0	0	0	0	0
Accumulated Revalued Amount on assets sold or scrapped	1,926	(1,926)	0	0	0	0	0
Balance at 31 March 2020	(85,357)	(145,334)	0	283,560	(483)	896	53,282

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
Balance at 1 April 2018	(97,485)	(210,165)	(2)	200,398	683	1,562	(105,009)
Allocated from Other Comprehensive Income and Expenditure	(10,420)	0	0	(23,562)	0	0	(33,982)
Transfers from Usable Reserves (Note 6)		72,970	0	22,539	(1,543)	(481)	93,485
Difference between fair value and historical cost depreciation	1,560	(1,560)	0	0	0	0	0
Accumulated Revalued Amount on assets sold or scrapped	25,080	(25,080)	0	0	0	0	0
Balance at 31 March 2019	(81,266)	(163,835)	(2)	199,376	(860)	1,081	(45,506)

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 and Sargeant judgements 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
33,912	779	Total charged to the Deficit on the Provision of Services	29,476	692
		Charged to Other Comprehensive Income and Expenditure		
(23,194)	(368)	Actuarial (Gains) / Losses	68,048	(1,393)
10,718	411	Total to the Comprehensive Income and Expenditure Statement	97,524	(701)

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)
		Actual Amount charged for pensions in the year:		
10,777	1,375	Employers contributions payable to scheme	10,967	1,670
(23,135)	596	Total amount included in the General Fund for the year	(18,509)	978

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
(888,117)	(30,641)	Opening Balance at 1 April	(934,668)	(29,677)
(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 Gains/(Losses)	45,399	1,393
24,986	1,375	Benefits paid	28,783	1,670
(9,374)	0	Past service curtailments	(460)	0
(934,668)	(29,677)	Closing Balance at 31 March	(912,552)	(27,306)

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	Opening Balance at 1 April	764,970	0
18,552	0	Expected return on plan assets	18,203	0
38,001	0	Actuarial Gains/(Losses)	(113,447)	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)
764,970	0	Closing Balance at 31 March	656,297	0

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	656,297
Scheme Deficit	(175,159)	(185,636)	(191,349)	(200,398)	(199,375)	(283,561)

The scheme deficit shown above includes £27.306 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 which has carried into 2019/20.

The principal assumptions used by the actuary have been:

	2018/19	2019/20
Mortality Assumptions		
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
Other Assumptions		
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%
Take up of option to convert annual pension into retirement lump sum	80.00%	80.00%

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%
	100.0%	100.0%

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:

Disclosure rate assumption		
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%

Rate of general increase in salaries		
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%

Rate of increase to pension in payment and deferred pensions assumption, and the rate of revaluation of pension accounts assumption		
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%

Post retirement mortality assumption		
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:

31 March 2019		31 March 2020
£000		£000
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
36,707	Total	37,292

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
5,124	Total	4,660

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
2,271	Total	2,317

Finance Leases

Centre Square Buildings

The Council as part of its regeneration and town centre growth plans has entered into two finance lease contracts for the provision of high quality office accommodation. Buildings 1 & 2 Centre Square, adjacent to the Council's municipal buildings, were completed during September 2020. The properties were built with third-party finance and the leases entered into on the buildings are for a 35-year term with rentals paid on a quarterly basis to CBRE Property Management UK. The total repayment schedule for the two leases over the contract are included in the table below. Due to the interest rate implicit in the lease, most of the early year's rental payments are heavily weighted towards interest rather than principal with this position reversing in the latter years of the contract.

The total future minimum lease payments under these finance leases are given in the table below:

31 March 2019	Total future minimum lease payments	31 March 2020
£000		£000
0	Amounts due within one year	711
0	Amounts due between 1 to 5 years	2,844
0	Amounts due after 5 years	20,950
0	Total payments due	24,505
0	Less: Future finance charges	(12,131)
0	Present Value of Lease Obligations	12,374

Given that the risks and rewards of the contract sit predominantly with the Council (length of contract, option to purchase for a nominal sum at the end of the lease term etc.) the properties are held on the long-term assets side of the Balance Sheet.

As the aim of Council is to rent these premises out to tenants on shorter-term leases, the assets have been categorised as investment properties in the accounts. They have been valued at fair/market value with their valuation of £13.2m being determined from future rentals generated. The buildings were empty at 31st March 2020 with negotiations with potential tenants still in progress.

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.

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 follow:

	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	67,813
Hustler Playing Fields Trust – Sport	523381	1,522,597	272	1,522,869
W.M.Anderton Trust – Kings Manor School and Acklam 6 th 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	337,656
Captain Cook Birthplace Trust	507317	8,995	(8,995)	0
Dorman Museum and Art Gallery Appeal Trust	n/a	3,287	19	3,306
Total		2,691,747	(5,003)	2,686,744

* 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	(52,013)
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
(19,495)	Net Cash Flow from Investing Activity	(62,781)

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 drawdowns/(repayments) of short and long term borrowing	72,124
3,387	Net Cash Flow from Financing Activity	71,979

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
	Income			
(64,561)	Council Tax receivable	(69,475)	0	(69,475)
(37,737)	Business Rates receivable	0	(36,469)	(36,469)
(102,298)	Total Income	(69,475)	(36,469)	(105,944)
	Expenditure			
	Precepts and Demands:			
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
	Business Rates			
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
	Bad & Doubtful Debts			
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	Total Expenditure	69,237	36,888	106,125
	Contributions towards previous year's estimate			
(1,718)	Collection Fund Deficit / (Surplus)	728	(490)	238
(3,209)	Deficit / (Surplus) for the Year	490	(71)	419
	COLLECTION FUND BALANCE			
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)	Balance carried forward at 31 March	(325)	(430)	(755)
	Allocated to:			
(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)	Balance carried forward at 31 March	(325)	(430)	(755)

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
	41,830		56,761	34,505
Less: Adjustments for assumed non-collection based on budgets assumption of 97.4% collection rate			(1,476)	(897)
Total			55,285	33,608

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)
(728)	Total Deficit / (Surplus)	(562)

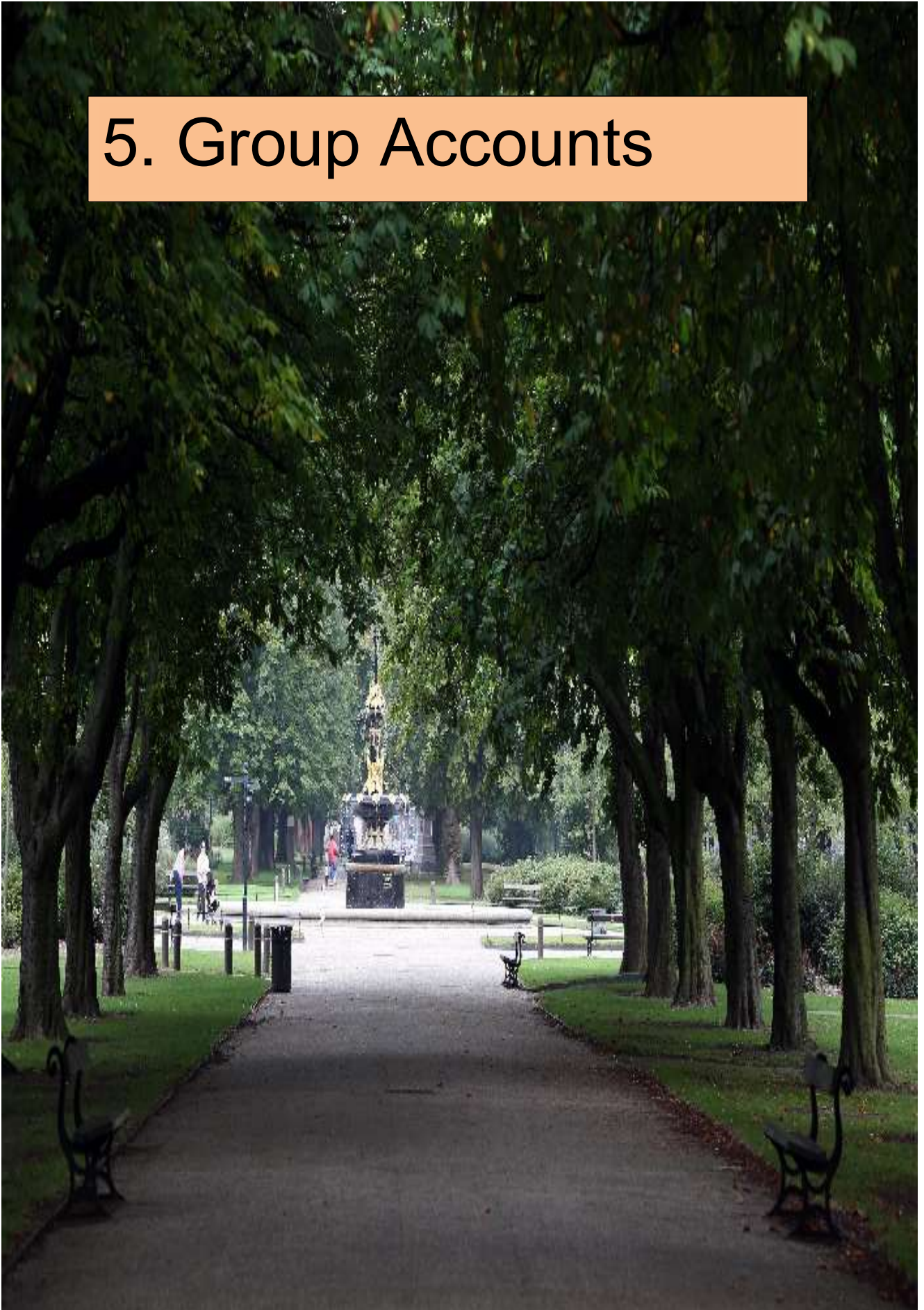
Note 4 Council Tax and Business Rates Provisions

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 st April 2019	5,281
Reductions in the provision for appeals	(796)
Increase in the provision for appeals	475
Closing balance as at 31st March 2020	4,960

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 MHomes Ltd, the company was rebranded following the local elections of May 2019.

The 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 residents. The company is working on a variety of projects that will help 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 31st March 2020 as the demolition had been delayed by the on-set of the Covid-19 pandemic. Due to the immaterial values involved group financial statements have not been prepared for the 2019/20 financial year.

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

Note	Description	Page
	Description of Teesside Pension Fund	100
	Teesside Pension Fund Accounts and Net Asset Statement	102
1	Basis of Preparation	103
2	Accounting Standards issued not yet Adopted	103
3	Summary of Significant Accounting Policies	104
4	Critical Judgements, Sensitivities and Accounting Estimates	107
5	Assumptions made about the Future and other Major Sources of Estimation Uncertainty	108
6	Contributions	109
7	Benefits Payable	109
8	Transfers in from Other Pensions Funds	110
9	Other Income	110
10	Payments to and on account of leavers	110
11	Management Expenses	110
12	Investment Income	111
13	Investment Assets	111
14	Financial Instruments	117
15	Actuarial Valuations	123
16	Current Assets	124
17	Current Liabilities	125
18	Additional Voluntary Contribution (AVC's)	125
19	Related Party Transactions	125
20	External Audit Costs	126
21	Senior Employees' Remuneration	126
22	Events after the Balance Sheet Date	126
	The Compliance Statement	127

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) 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, widow's 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 £3.71 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 £349.9 million to £3.71 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.

Membership of the Fund	2016	2017	2018	2019	2020
Active	22,637	23,791	23,295	22,724	23,438
Deferred	22,453	22,861	23,243	23,361	23,488
Pensioner	21,699	22,177	22,757	23,983	24,651
Total	66,789	68,829	69,295	70,068	71,577

Summary of Changes in Membership	Active Members	Deferred Members	Pensioner Members	Dependants	Total
At 1 April 2019	22,724	23,361	20,943	3,040	70,068
Adjustments	(51)	139	(148)	15	(45)
New Members	4,013	1,154	1,415	246	6,828
Change in Status	(1,017)	(932)	(160)	0	(2,109)
Leavers	(2,231)	(234)	(512)	(188)	(3,165)
At 31 March 2020	23,438	23,488	21,538	3,113	71,577
% of Total Membership	32.7%	32.8%	30.1%	4.4%	100.0%

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
	Dealings with members, employers and others directly involved in the Fund		
(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)	Total Income from Members		(111,952)
141,597	Benefits payable	7	146,259
12,194	Payments to and on account of leavers	10	13,683
153,791	Total Expenditure to Members		159,942
49,634	Net / withdrawals from dealings with members		47,990
8,266	Management expenses	11, 20	7,455
57,900	Net withdrawals including fund management expenses		55,445
	Returns on investment		
(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	368,157
(249,543)	Net returns on investment		327,177
(191,643)	Net (increase)/decrease in the net assets available for benefits during the year		382,622
3,896,452	Net assets of the scheme as at 1 April	14	4,088,095
4,088,095	Net assets of the scheme as at 31 March	14	3,705,473
2018/19	Net Assets Statement as at 31 March		2019/20
4,083,229	Investments Assets	13	3,713,228
10,013	Current Assets	16	9,294
(5,147)	Current liabilities	17	(17,049)
4,088,095	Net assets of the Fund at 31 March	14	3,705,473

Notes to Teesside Pension Fund Accounts

Note 1 Basis of Preparation

The accounts are prepared on a going concern basis; that is, on the assumption that the Council will continue to operate as the administering authority for the Pension Fund and the Pension Fund will continue to meet its financial obligations for the foreseeable future from the date that the audited accounts are issued, this period being at least twelve months from the approval of these financial statements.

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

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

- The Fund had assets of c. £3.7 billion as at 31 March 2020. £3.15 billion (85%) of this is held in assets which are considered to be liquid and which could be converted to cash if required (including £0.5 billion actually held as cash).
- The Fund has estimated that in 2020/21 it will pay out approximately £175 million in benefits and other outgoings in the coming twelve months and is forecasting contribution income in the region of £85 million. This shortfall in contribution income versus benefits and other expenditure of £90 million will be met partly from other regular investment income, which is estimated to be £20 million in 2020/21 with the remaining £70 million being taken from the Fund's cash balance, which was £501 million at the 31 March 2020.

On this basis, management believes it is appropriate to continue to prepare the financial statements on a going concern basis, and that there are no material uncertainties in relation to this 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.
- IFRS 17 requires entities to identify portfolios of insurance contracts, which comprise contracts that are subject to similar risks and are managed together.
- 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 accounted for on an accruals 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, Northern Trust. 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 IAS26 (Accounting and Reporting by Retirement Benefit Plans) 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 £33,836,477 (£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 IAS26 (Accounting and Reporting by Retirement Benefit Plans). 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.

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).

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 £103.658 million.
Pooled Investment Vehicles	Infrastructure and global property investments are valued at fair value in accordance with the International Private and Venture Capital Association guidelines or European Venture Capital Association definition of conservative value. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Unobservable market values amount to £3,198 billion and are relating to infrastructure, real estate, and pooled equity vehicles
Freehold and leasehold property	Independent external valuers, Cushman & Wakefield use techniques to determine the fair value of directly held freehold and leasehold property in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th edition).	
Freehold and leasehold property: COVID 19 - material valuation uncertainty	Cushman & Wakefield has stated that their valuations as at 31 March 2020 have been reported on the basis of 'material valuation uncertainty' and consequently, less certainty and a higher degree of caution should be attached to their valuations that would normally be the case. Given the unknown future impact that COVID-19 might have	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.

	<p>on the real estate market, they have recommend that the valuation of the directly held properties is kept under frequent review, as it is each quarter. For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. The statement is a disclosure, not a disclaimer. It is used in order to be clear and transparent with all parties that – in the extraordinary circumstances that applied at the valuation date – less certainty can be attached to the valuation than would otherwise be the case.</p>
--	---

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)
Total		(94,529)	(99,421)

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)
Total		(94,529)	(99,421)

Note 7 Benefits Payable

Pensions/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
Total		141,597	146,259

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
Total	141,597	146,259

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)
Total	(4,972)	(8,546)

Note 9 Other Income

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

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
Total	12,194	13,683

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
Total	8,244	7,433

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
Total	5,314	1,480

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)
Total	(55,311)	(40,980)

Rental Income and Property Expenses

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

Note 13 Investment Assets

The Pension Fund invest in several types of assets 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)	(341,228)	2,868,327
Pooled Property Investments	50,121	13,344	(6,445)	(5,886)	51,134
Properties	300,700	0	0	(22,250)	278,450
	3,540,968	179,550	(154,361)	(368,157)	3,198,000
Cash Deposits	527,454				501,295
Other Investment Balances	14,807				13,933
Net Investment assets	4,083,229				3,713,228

2018/19	Value at 1 April 2018	Purchases at Cost	Sale Proceeds	Change in Market Value	Value at 31 March 2019
	£000	£000	£000	£000	£000
Equities	2,232,575	18,925	(2,405,369)	185,364	31,495
Pooled Investment Vehicles	839,927	3,561,141	(1,250,275)	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
	3,380,191	3,625,005	(3,658,460)	194,232	3,540,968
Cash Deposits	485,924				527,454
Other Investment Balances	24,896				14,807
Net Investment assets	3,891,011				4,083,229

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 £22,068,647 and unrealised loss was £390,225,586. 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%	194,064	5.23%
Border to Coast PE UK Listed Equity	1,225,311	30.0%	1,023,645	27.60%

SSGA MPF Pacific Basin Ex-Japan Index	366,254	8.97%	302,041	8.14%
SSGA MPF Japan Equity Index	233,612	5.72%	228,691	6.17%
SSGA MPF North America Equity Index Sub Fund	640,191	15.68%	558,226	15.05%
SSGA MPF Euro Ex UK Equity Index Sub Fund	373,959	9.16%	344,340	9.29%

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	
UK Equities				
Border to Coast UK L E-AA GBP	1,225,311	99.45%	1,023,645	99.99%
Overseas Equities				
Border to Coast OS DEV M-AA GBP	206,925	0.00%	194,064	11.92%
SSGA MPF Pacific Basin ex-Japan Index	366,254	22.25%	302,041	18.56%
SSGA MPF Japan Equity Index	233,612	14.19%	228,691	14.05%
SSGA MPF North America Equity Index Sub Fund	640,191	38.89%	558,226	34.30%
SSGA MPF Euro Ex UK Equity Index Sub Fund	373,959	22.71%	344,340	21.16%
Alternatives – Private Equities				
Crown Co Investment Opp II PLC	9,921	9.47%	17,081	33.55%
Pantheon Global Co-Investment Opportunities IV	0	0.00%	12,581	24.71%
Border to Coast Private Equity Series 1A	0	0.00%	9,192	18.05%
Crown Growth Global Opportunities III	0	0.00%	7,275	14.29%
Alternatives – Infrastructure				
ACIF Infrastructure	10,483	10.01%	13,665	14.62%
Innisfree PFI Continuation Fund	9,644	9.21%	9,949	10.64%
Innisfree PFI Secondary Fund 2	7,710	7.36%	8,473	9.06%
Border to Coast Infrastructure Series 1A	0	0.00%	12,450	13.32%
Capital Dynamics Clean Energy & Infrastructure VIII	0	0.00%	5,223	5.59%
JP Morgan IIF UK I LP	0	0.00%	20,162	21.57%
Ancala Infrastructure Fund II	0	0.00%	6,082	6.51%
Gresham House BSI Infrastructure LP	0	0.00%	13,036	13.94%
Alternatives – Other Alternatives				
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%

Direct Property				
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%
Property Unit Trusts				
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	46%	1,443,038	45%
United States	732,996	21%	721,216	22%
Asia Pacific	459,809	13%	360,260	11%
Europe	447,090	13%	425,381	14%
Japan	254,305	7%	248,097	8%
Others	819	0%	8	0%
Total	3,540,968	100.00%	3,198,000	100%

Equities

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

Pooled Investment Vehicles and Properties

	As at 31/03/19	As at 31/03/20
	£000	£000
UK Equity	1,232,124	1,023,727
Pooled Property investment Vehicle	50,121	51,134
Private Equity	0	50,918
Infrastructure	49,973	93,487
Other Alternative Investments	44,855	72,891
UK Unit and Investment Trusts Total	1,377,073	1,292,157
Overseas Equities	1,831,700	1,627,393
Overseas Unit and Investment Trusts Total	1,831,700	1,627,393
Total	3,208,773	2,919,550

UK Properties

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

The properties were valued on the basis of Material Valuation Uncertainty at 31 March 2020 by Cushman and Wakefield LLP acting as an External Valuer. The valuer's opinion of the Market Value of the Fund's interests in the properties has been reported (as per VPS 3 and VPGA 10 of the RICS Red Book Global). The current response to Covid-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

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
Total	14,807	13,933

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
Infrastructure			
	GBP	GBP	GBP
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
Total GBP	170,000,000	55,466,831	114,533,169
	EUR	EUR	EUR
Access Capital Infrastructure Fund	23,000,000	15,164,083	7,835,917
Ancala Infrastructure Fund II	23,000,000	6,683,272	16,316,728
Foresight Energy Infrastructure	17,000,000	1,079,167	15,920,833
Total EUR	63,000,000	22,926,522	40,073,478

	USD	USD	USD
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
Total USD	100,000,000	30,556,533	69,443,467
Other Alternatives			
	GBP	GBP	GBP
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
Total GBP	30,000,000	15,369,898	14,630,102
Private Equity			
	GBP	GBP	GBP
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
Total GBP	110,000,000	9,559,837	100,440,163
	EUR	EUR	EUR
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
Total EUR	135,000,000	16,950,000	118,050,000
	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
Total USD	150,000,000	41,718,410	108,281,590

Note 14 Financial Instruments

Net Gains and Losses on Financial Instruments

	2018/19	2019/20
Financial Assets	£000	£000
Fair Value through profit and loss account	(194,231)	368,157

Fair Value of Financial Instruments

Fair Value through profit and loss	Fair Value	Carrying Value	Fair Value	Carrying Value
	As at 31/03/19		As at 31/03/20	
	£000	£000	£000	£000
Equities	31,495	31,495	89	89
Pooled Investments	3,158,652	3,158,652	2,868,327	2,868,327
Pooled Property	50,121	50,121	51,134	51,134
	3,240,268	3,240,268	2,919,550	2,919,550
Financial Liabilities – Fair Value at Amortised Cost				
Loans and receivables	520,707	552,274	453,407	524,523
Creditors	(5,147)	(5,147)	(17,049)	(17,049)
Net Financial Assets of the Fund	3,755,828	3,787,395	3,355,908	3,427,024

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 at 31st December annually. Cash flow adjustments are used to roll forward the valuations to 31st 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	1,357,271	1,562,190	2,919,550
Non-financial assets through profit and loss account	0	0	278,450	278,450
Loans and receivables	453,407	0	0	453,407
Financial Liabilities at amortised cost	(17,049)	0	0	(17,049)
Total Financial Assets	436,447	1,357,271	1,840,640	3,634,358

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)
Total Financial Assets	547,127	1,511,023	1,998,378	4,056,528

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%	33,836	36,178	31,495
Pooled Investments - Infrastructure	6.92%	59,565	63,687	55,443
Pooled Investments - Other Alternatives	6.92%	7,221	7,721	6,721
Pooled Investments - Property	8.01%	28,246	30,509	25,984
Total		1,562,190	1,729,513	1,394,870

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
Pooled Infrastructure	7.30%	49,974	53,622	46,326
Total		1,697,678	1,864,457	1,530,899

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	1,433,862
Pooled Investments – Private Equity	0	0	41,853	(5,871)	(2,146)	0	33,836
Pooled Investments – Infrastructure	42,753	0	63,654	(11,399)	(35,443)	0	59,565
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
Total	1,697,678	0	105,507	(99,673)	(140,912)	130	1,562,730

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
Total	631,576	0	2,130,718	(1,053,383)	(11,233)	0	1,697,678

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	1,164,506	15.71%	1,347,450	981,562
	Non UK	1,754,955	11.03%	1,948,527	1,561,383
	Total	2,919,461		3,295,977	2,542,945
Total		2,919,550		3,296,080	2,543,020

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
Total		3,240,268		3,555,319	2,925,217

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 2019 and 31 March 2020 is set out below:

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

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)
Total	515,228	1,288	(1,288)

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)
Total	542,261	1,356	(1,356)

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	425,381	7.75%	458,348	392,414
Japanese Yen	248,097	12.25%	278,489	217,705
US Dollar	721,216	10.08%	793,915	648,517
Asia Pacific ex Japan basket	360,260	10.90%	399,528	320,992
Total	1,754,962		1,930,289	1,579,635

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
Total	1,894,919		2,099,465	1,690,573

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 decrease/increase 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, infrastructure partnerships and other alternatives. When private equity, infrastructure partnership and other alternatives 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
Surplus	11	527
Funding Level	100%	115%

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

	Years
Mortality Assumptions:	
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	5,127
Members	2,289	2,050
Capital cost of early retirements	5	181
Cash balances	206	103
Total	10,013	9,294

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
Total	10,013	9,294

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)
Total	(5,147)	(17,049)

Analysed by	31 March 2019	31 March 2020
	£000	£000
Other local authorities	(454)	(380)
Other entities and individuals	(4,693)	(16,669)
Total	(5,147)	(17,049)

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
Total	7,693	7,894

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
Total	22	22

Note 21 Senior Employees' Remuneration

	2018/19	2019/20
	£000	£000
Key Management Personnel		
Short Term Benefits	68	64
Post-Employment Benefits	10	10
Total	78	74

Note 22 Events after the Balance Sheet Date

The asset valuation of the Pension Fund reduced by just over £0.5bn (14%) in late February and during March 2020 as the extent and challenge of the coronavirus pandemic became evident and its impact was translated into financial losses through global stock markets and other holdings held by the Fund. The value of £3.7bn at 31st March 2020 being significantly lower than last year's end position. As countries around the world went into national lockdowns to suppress the transmission of the virus, the financial markets began to recover, particularly in the United States, and by the end of the 1st quarter the vast majority of the value of assets lost had been regained.

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

[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

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

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/Sargeant 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/Sargeant 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 was published on 16th July 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/Sargeant 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

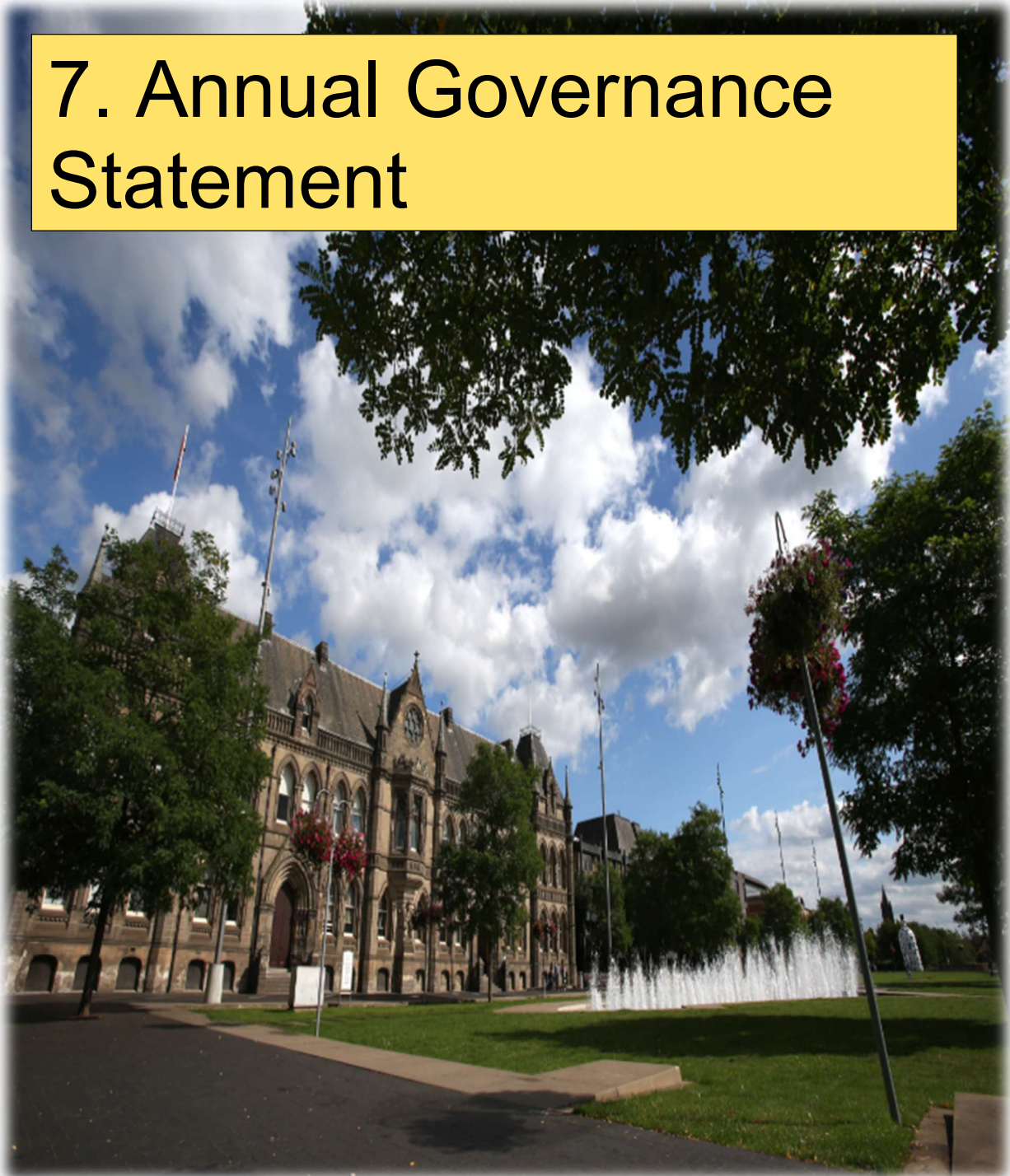
Brougham Primary School	17.5%	20	60
Business and Enterprise Commercial Ltd	12.7%	3	67
Caldicotes Primary Academy	17.5%	7	20
Care and Custody Health Ltd	17.0%	16	41
Care Quality Commission	17.9%	1,085	2,519
Carmel Education Trust	17.5%	4	0
Catcote Academy	17.5%	94	281
Caterlink - Ironstone	15.1%	0	0
Caterlink - 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
Egglescliffe 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	15.3%	36	96
SLM Fitness & Health Ltd (MBC)	15.3%	4	10
SLM Fitness and Health Ltd	18.5%	2	6
SLM Food & Beverage Ltd (MBC)	15.3%	4	10
SLM Food and Beverage Ltd	18.5%	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
The Chief Constable for Cleveland	15.6%	1066	2520
Thornaby C of E Primary	17.5%	16	51
Unity City Academy	17.5%	51	151
Veritau Tees Valley	17.9%	2	5
Viewley Hill Academy Trust	17.5%	16	49
Vision Academy Learning Trust	17.5%	152	438
West Park Primary School	17.5%	14	42
West View Primary School and Sports Academy	17.5%	50	143
Whitecliffe Academy	17.5%	3	11
Wynyard Church of England Primary School	17.5%	14	42
XPS Administration Ltd	15.3%	38	63
Yarm Primary School	17.5%	19	55
YARM TOWN COUNCIL	17.3%	1	4
Zetland Primary School	17.5%	19	57
Total Contributions 2019/20		29,915	69,507

7. Annual Governance Statement



Middlesbrough Town Hall and Centre Square

Annual Governance Statement 2019/20

Introduction

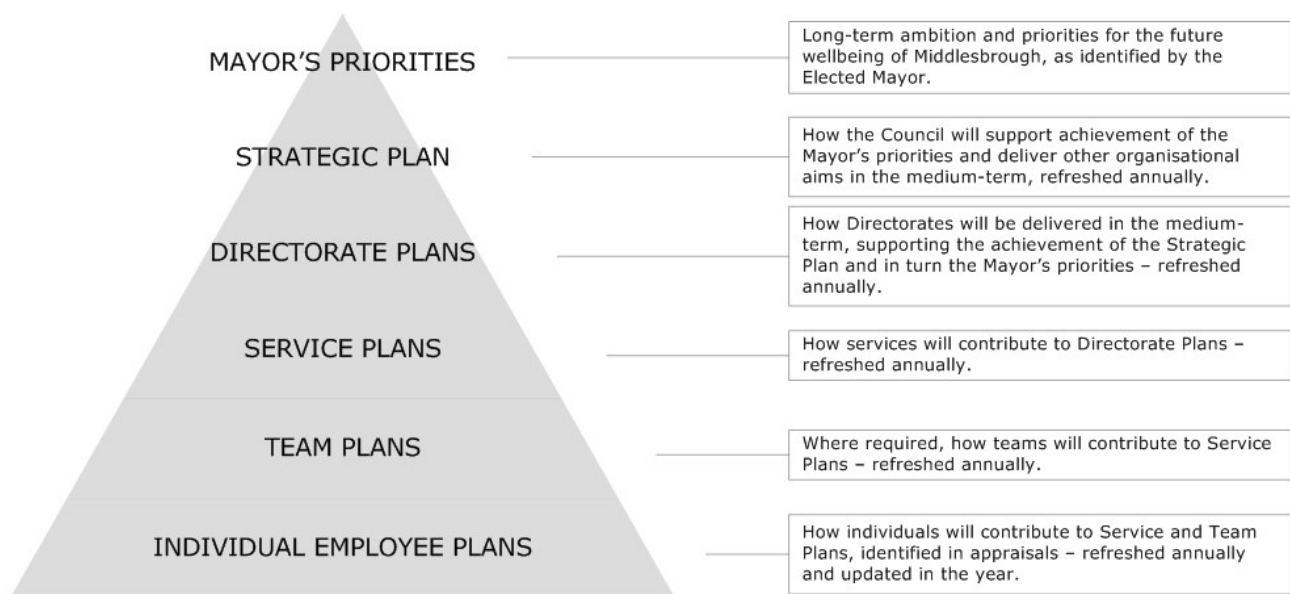
1. Middlesbrough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. The Council has in place a [Code of Corporate Governance](#), which sets out its corporate governance framework. This framework comprises the culture, values, systems and 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

7. 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.
8. 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

- Appendix 1 sets out the current Committee structure of the Council that was in place during 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

- 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.

Action	Lead officer	Status
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, though regional planning structure was effectively stood down in December 2019 following Brexit and agreement of transition period. Arrangements will need to be stood back up in event of the failure to agree a trade deal with the EU by 31/21/20.
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	Ongoing. Policy approved by Executive in February 2020. Work to populate the central register will be delivered during 2020.

Action	Lead officer	Status
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.
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 by Internal Audit 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.		

Action	Lead officer	Status
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.	All Heads of Service	Completed.

Internal Audit during 2019/20

12. During 2019/20 Internal Audit undertook 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
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
	Total:	0	25	14

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 External Audit plan for 2019/20, as well as the Audit results report for 2018/19;
- 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 continues to minimise the use of agency staff wherever 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 this total figure underspending in other parts of the Council partially mitigated a total overspend within 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 overall delivery plan for the Council's Information Strategy and good progress has been made to implement them, although some actions have had timescales that 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

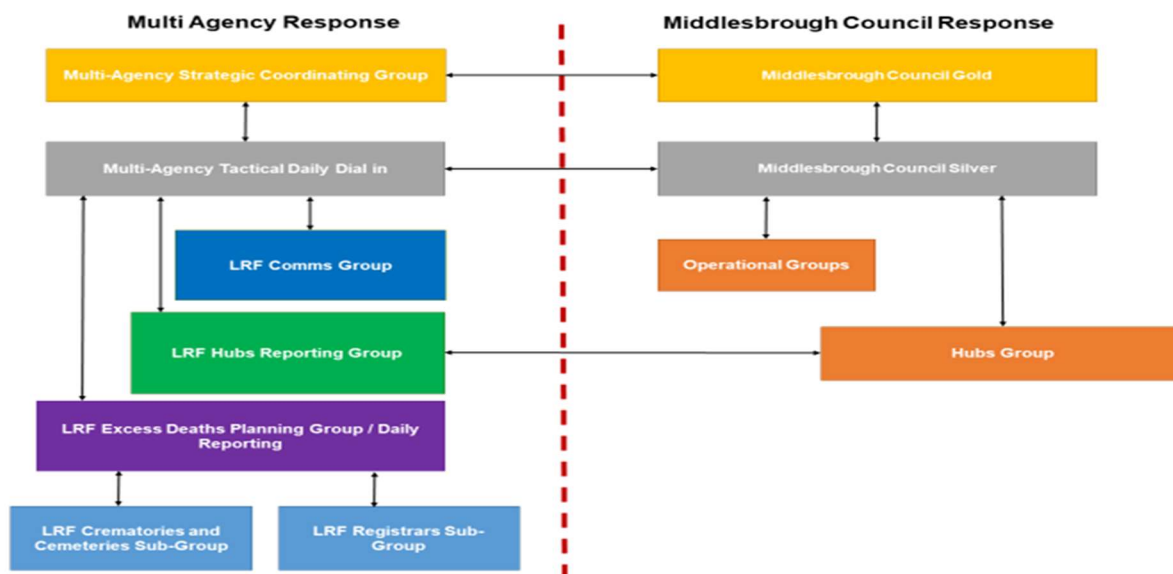
24. In December 2019 Ofsted completed an inspection of the Council's compliance with the Inspection of Local Authority Children's Services (ILACS) framework. The outcome of that inspection was a judgement across four categories:

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.
26. The outcome of the inspection was reported to elected members, along with details of a 12-week improvement plan that has now been delivered with good progress made. During this 12-week 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 Council's longer term plans.
27. In 2020/21 a three-year plan was developed to deliver sustained improvement and change in Children's Services, monitored by a monthly Multi-Agency Strategic Improvement Board with a highly experienced independent chair. The board receives progress reports on delivery of the improvement plan, has oversight of key performance metrics to track impact and considers themed reports on key practice issues. These three elements give the board a comprehensive overview of the delivery and impact of improvement work. The strategic board is supported by an operational board and weekly meetings with senior managers within Children's Services.
28. 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

29. 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 on the Council's services. The response structure put in place is outlined below:



30. £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.
31. 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

32. 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.

Ransomware attack on Redcar and Cleveland Borough Council

33. In February 2020, Redcar and Cleveland Borough Council (RCBC) was subject to a ransomware attack that impacted shared services delivered by it on behalf of this Council. The Council was unaffected as a result of its security posture and immediately implemented a business continuity response, relocating shared services within half a day while also supporting RCBC's elements of those shared services.

Middlesbrough Development Company activity during 2019/20

34. As reported in the last AGS, during 2018/19 the Council created MHomeS (changed to Middlesbrough Development Company during 2019/20), as a local authority trading wholly-owned company limited by shares, with the Council as the sole shareholder.
35. During 2019/20 this body met six times and took the significant decision to invest £3.5m in redeveloping Tollesby shops. During the year £0.65m was transferred to the HDV for this project, with £55,000 spent during the year and £0.595m remaining in balance at 31 March 2020, generally due to project delays and the impact of COVID-19.

36. 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 s.151 Officer and Monitoring Officer will receive all agendas, reports and minutes. Information on decisions made will also be reflected within the quarterly capital monitoring report to elected members.

Position statement against the Council's Code of Corporate Governance

Self-assessment

37. 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.
38. The detailed position statement is at Appendix 2. In summary, the Council considers that it continues to demonstrate reasonable 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 2020/21, with these set out at Appendix 3.

Internal Audit opinion

39. 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)¹ should provide an annual report to the board². 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
 - (f) a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme.
40. Vertiau 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**.
41. 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.
42. 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

¹ The Head of Internal Audit

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

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.

43. The opinion of reasonable assurance is qualified, for a number of reasons as set out below.
44. 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.
45. 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.
46. Delivery of the service was not significantly impacted by the cyber-attack experienced by Redcar and Cleveland Council as Veritau was still able to plan and carry out the remaining planned work prior to the impact of Covid-19.
47. 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.
48. The qualifications are a limitation on the scope of Veritau's 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)³, and reflects the approach that most Heads of Internal Audit will be taking when providing an opinion during the current pandemic.

External opinion

49. To be provided alongside this document to the Corporate Affairs and Audit Committee. The Council's External Audit provider has commented on this document.

Corporate governance priorities for 2020/21

50. 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 at Appendix 3.

Signed on behalf of Middlesbrough Council



Andy Preston
Elected Mayor of Middlesbrough
4 November 2020



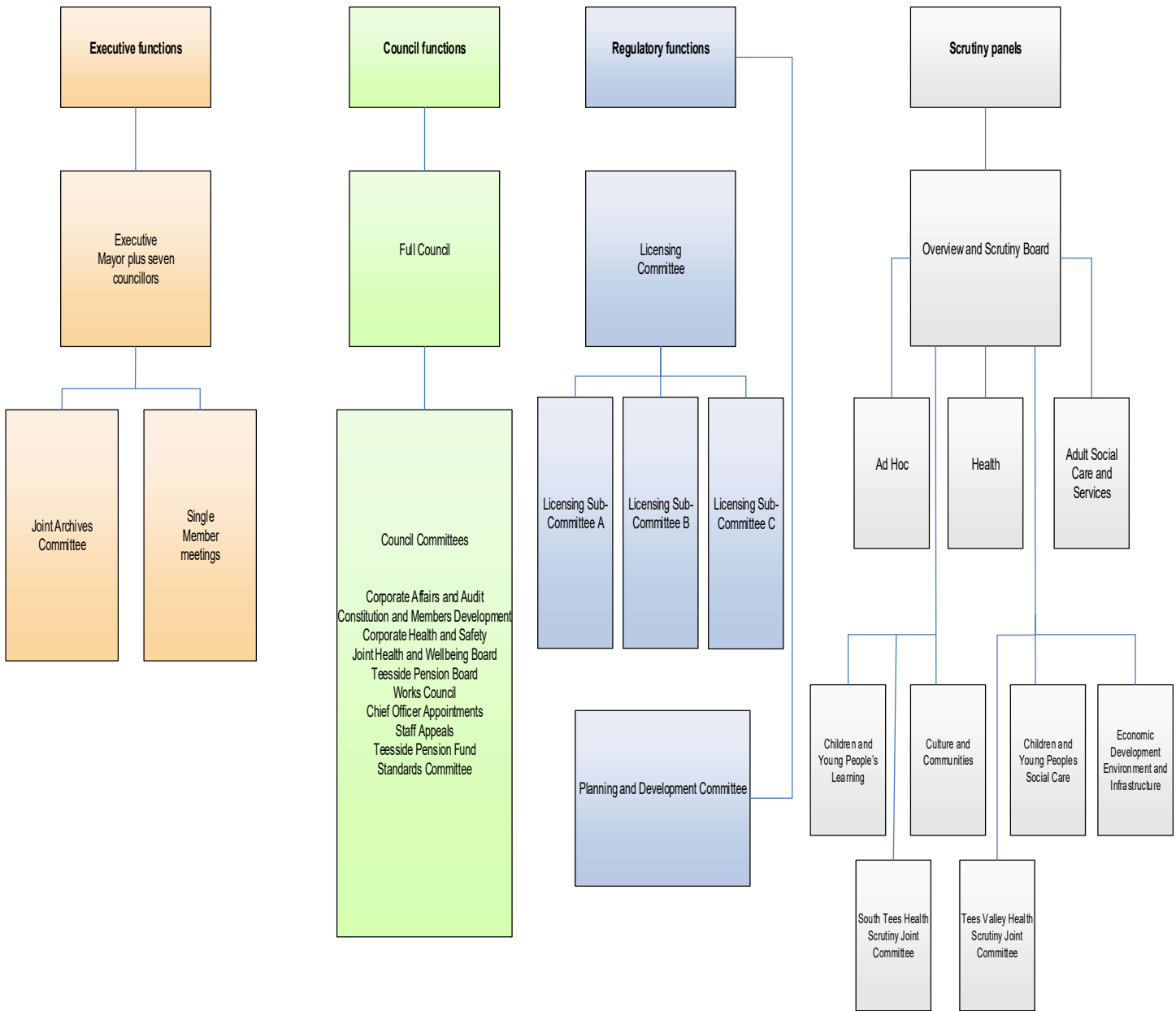
Tony Parkinson
Chief Executive
4 November 2020



Ian Wright
Director of Finance (Section 151
Officer)
4 November 2020

³ The IASAB 'exists to promote high quality internal audit across the UK public sector'.
Middlesbrough Council

Appendix 1: Middlesbrough Council Committee Structure 2019/2020



Appendix 2: 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 rule of law.</p> <ul style="list-style-type: none"> Behaving with integrity Demonstrating strong commitment to ethical values Respecting the rule of law 	<ul style="list-style-type: none"> Work diligently and with integrity to achieve the Elected Mayor's Priorities for Middlesbrough. Clearly document expected behaviours, and decision-making processes, for members and officers, and regularly review these. Effectively communicate expected behaviours to members and officers, and provide appropriate training on ethical behaviour. Ensure members, statutory officers, other key post holders are able and supported to fulfil their duties and meet their responsibilities. Ensure compliance by maintaining effective audit committee, internal audit and scrutiny functions, and standards and disciplinary processes. 	<ul style="list-style-type: none"> 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. Corporate values (one of which is integrity) in place and embedded within employee recruitment and selection, induction, appraisal and development. Comprehensive member induction process and member development programme. Member and officer declarations of interests registers in place, and updated annually. Mandatory training for members on the code of conduct in place, and with all members individually signed up to the code. Comprehensive member handbook in place to provide guidance and signpost support, and members' enquiries service in place to assist with casework and data requests. Statutory officers clearly identified and appropriately supported. The Council complies with the CIPFA statement on the role of the Chief Financial Officer (2016). Effective Corporate Affairs and Audit Committee, internal audit and scrutiny arrangements in place, with members trained appropriately. Policies in place for anti-fraud, bribery and corruption; complaints; procurement; and whistleblowing, and regularly reviewed. Member standards arrangements and employee disciplinary procedures in place. Proactive approach to equality and inclusion in place, engaging staff, acting on intelligence and reporting progress. 	<ul style="list-style-type: none"> Continue to hold regular meetings of the Constitution Committee to continue delivering the rolling review of the constitution during 2020/21. Continue to implement a scheme of sub-delegations where appropriate to further improve governance around officer delegated decisions. Implement a case management tool to complement the revised member enquiries process for those Councillors who wish to use it. Refresh the Member Development framework to include delivery of training on diversity and ethics, and use of social media. Revised members' code of conduct to be implemented and embedded subject to the approval of the revised code by full Council.

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"> • Openness • Engaging comprehensively with institutional stakeholders • Engaging with individual citizens and service users effectively 	<ul style="list-style-type: none"> • Document and operate a culture of openness and transparency within the organisation. • Maintain a culture of accountability, so that members and officers understand what they are accountable for and to whom they are accountable. • Consult appropriately with stakeholders on the development of its budget, key plans and service development. • Maintain effective decision making processes, ensuring that reports to decision makers clearly set out stakeholder views where relevant. • 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. • Publish on its website information on the Council's strategies, plans and finances as well as on outcomes, achievements and challenges. 	<ul style="list-style-type: none"> • Stated commitments to transparency within the Strategic Plan and supporting strategies such as the Information Strategy. • Constitution and supporting documentation clearly set out accountabilities and delegated authorities. • Consultation on Strategic Plan priorities; and annual budget consultation in place. • Corporate consultation and impact assessment policy in place, ensuring that stakeholders (including third party providers) are engaged appropriately and views considered in decision making. • Committee diary planner published on an annual basis, approved by members and accessible via the Council's website. • Executive Forward Work Programme in place, setting out planned decisions in the coming four months. • All public Executive and Committee agendas, papers and minutes are published via the Council's website. Officer-delegated decisions are also published. • Virtual meeting solutions in place for Councillor meetings while Covid-19 restrictions are in force to ensure transparency around decision-making. • Key strategies and plans are clearly published on the Council's website, and regularly updated. • Information on performance and expenditure sent to all households annually as part of Council Tax billing. • 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. • Plans with the digital and marketing and communications strategies to advance in the current approach. 	<ul style="list-style-type: none"> • Continue to implement a scheme of sub-delegations where appropriate to further improve governance around officer delegated decisions. • Launch the Council's new open data site which will make published data more accessible. • Undertake a review of digital engagement capabilities post Covid-19 including the Council's website to meet appetite for digital engagement. • Refresh the Member Development framework to include delivery of training diversity and ethics. • Refreshed marketing and communications delivery plan in place during 2020/21.

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"> Defining outcomes Sustainable economic, social and environmental benefits 	<ul style="list-style-type: none"> 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. Define outcomes through robust consideration of appropriate evidence bases, such as the Joint Strategic Needs Assessment. Ensure that it delivers defined outcomes on a sustainable basis within available resources. Effectively identify and manage risks to the achievement of targeted outcomes. Manage customer expectations effectively when determining priorities to make best use of resources, and ensure fair access to services. 	<ul style="list-style-type: none"> 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. 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. 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. 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. 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. Residents Surveys; consultation on Strategic Plan priorities; and annual budget consultation in place. Customer Strategy and Charter in place, identifying what customers can expect from the Council, alongside specific service eligibility criteria. 	<ul style="list-style-type: none"> Refresh the JSNA for children and young people this year to refresh data and complete the Adults and Older persons sections. 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.

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"> • Determining interventions • Planning interventions • Optimising achievement of intended outcomes 	<ul style="list-style-type: none"> • 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. • 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. • Ensure achievement of social value through service planning and commissioning. • Ensure that it has clear and robust planning and control cycles for its strategic and operational plans, priorities and targets. • Determine appropriate KPIs to demonstrate service and project performance, and provide members and senior managers with timely updates on these. • Ensure medium and long term resource planning is realistic, sustainable and inclusive. • Prepare budgets that are aligned to the strategic objectives of the organisation and its MTFP. 	<ul style="list-style-type: none"> • Reports to decision makers developed using a standard format to ensure effective, fair, and evidence-based decision making. • Corporate consultation and impact assessment policy in place, ensuring that stakeholders engaged appropriately and views considered in decision making. • Strategic Procurement Strategy in place. Contract management framework now also in place. • 'How to do Business with Middlesbrough Council' guidance for providers in place. • Guide to social value in procurement and commissioning in place. • Annual reports to Corporate Affairs and Audit committee on disposals on the grounds of social value provided where appropriate. • 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. • 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. 	<ul style="list-style-type: none"> • Continue to implement a scheme of sub-delegations where appropriate to further improve governance around officer delegated decisions. • Continue to offer training on the Contract Management Framework to all contract managers during 2020/21. • Review the Strategic Procurement Strategy during 2020/21.

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"> Developing the Council's capacity Developing the capability of the Council's leadership and other individuals 	<ul style="list-style-type: none"> Regularly review operations to ensure that it is continuing to deliver services that are effective, including the use of benchmarking and sectoral research. Work collaboratively and in partnerships where added value can be achieved. Maintain an effective approach to organisational development to ensure continued capacity and capability to deliver. Clearly define roles, responsibilities and terms of engagement for members and employees. 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. Develop the capabilities of members and senior management to achieve effective shared leadership. Ensure there are appropriate structures in place to encourage public participation. Ensure that systems are in place to ensure that members and staff can be both held to account for performance, and supported as appropriate. 	<ul style="list-style-type: none"> Performance Management Policy set out how corporate performance will be managed. Directorates review performance internally. Business intelligence dashboards are being implemented to facilitate this. Range of benchmarking and other tools are used within Directorates to contextual performance and drive improvement. Horizon scanning is undertaken by LMT on a bi-annual basis, aligned with consideration of risk. Wider Leadership Management Team in place to enable broader consideration of key policy issues. Key strategic partnerships in place, such as the South Tees Health and Wellbeing Board. The organisational development ambitions of the Council are embedded within the Strategic Plan which clearly outlines corporate approach to organisational development, including workforce analysis. Constitution and supporting documentation clearly set out member and officer role profiles, relationship protocol and schemes of delegation. Corporate consultation policy and online consultation portal in place. Plans with the digital and marketing and communications strategies to advance in the current approach. 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. Clear employee appraisal and development process and member development programme in place. 	<ul style="list-style-type: none"> Continue to implement a scheme of sub-delegations where appropriate to further improve governance around officer delegated decisions. Deliver the Ofsted Improvement plan, in particular those actions that have been identified to strengthen leadership within Children's Safeguarding Services. Promote use of the Senior Member Development Framework. Refreshed marketing and communications delivery plan in place during 2020/21.

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"> Managing risk Managing performance Robust internal control Managing data Strong public financial management 	<ul style="list-style-type: none"> 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. Ensure effective performance management of service delivery, and provide members and senior managers with timely updates on service performance and progress towards outcomes. 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. 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. 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. Ensure effective counter fraud and anti-corruption policies and arrangements are in place. Ensure effective internal control arrangements exist for sound financial management. Maintain an effective audit committee function. Ensure effective arrangements are in place to collect, store, use and share data, including processes to safeguard personal data. Put in place arrangements to ensure that data used to support decision-making is accurate and clear. Ensure financial management arrangements support both long term outcome delivery and day-to-day operations. 	<ul style="list-style-type: none"> 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. Reports to decision makers developed using a standard format to ensure effective, fair, and evidence-based decision making. Wide-ranging annual scrutiny programme in place, examining policy and performance. Urgent decision process and records in place and reported to Council annually. Effective internal audit arrangement in place, utilising the Council's plans and risk registers to identify priorities. 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. Effective Corporate Affairs and Audit committee in place clear terms of reference and a full and trained membership. Information Strategy in place to provide systematic approach to information governance, including data protection and data quality. Robust financial management procedures in place relating to medium-term financial planning, budget setting, procurement and contract management. Internal audit opinion is that overall the Council has a reasonable overall control environment. 	<ul style="list-style-type: none"> Continue to implement a scheme of sub-delegations where appropriate to further improve governance around officer delegated decisions. Continue to offer training on the Contract Management Framework to all contract managers during 2020/21. Continue to deliver the actions put in place to address the recommendations of the Information Commissioner's Office audit.

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"> Implementing good practice in transparency Implementing good practices in reporting Assurance and effective accountability 	<ul style="list-style-type: none"> Provide reports in plain English wherever possible, ensuring that they are easy to access and interrogate and balancing transparency requirements with clarity. Report regularly on performance, delivery of value for money and stewardship of resources. Report on compliance with good governance principles within its Annual Governance Statement, including an action plan for continued improvement. Ensure compliance with good governance principles extends to its partnership arrangements. Ensure that recommendations made by external audit are addressed. Ensure that the internal audit service has direct access to members to enable it to provide assurance with regard to governance arrangements. Welcome and positively engage with peer challenges, reviews and inspections of its services. 	<ul style="list-style-type: none"> 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. Quarterly results reports to Executive and scrutiny covering performance, financial and risk updates. Annual Governance Statement complying with the standard set out in the Local Code of Corporate Governance. Governance arrangements in place for key strategic partnerships, such as the South Tees Health and Wellbeing Board, with improvement activity underway. Recommendations made by external audit are addressed as a matter of priority through the most appropriate route. Internal audit reports its plans, progress and findings regularly to the audit committee. Agreed actions from internal audit are tracked by DMTs until completion. Council proactively seeks peer challenge, publishing findings and responses and commissioning follow-ups. There are positive relationships with statutory inspectorates and regulators. 	<ul style="list-style-type: none"> Undertake population of the central Partnerships Register. Launch the dedicated Open Data site during 2020/21.

Appendix 3: Corporate governance priorities for 2020/21

Issue	Action	Outcome(s)	Lead officer	Deadline
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	December 2020 (amended from 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.	Head of Strategy, Information and Governance	Complete
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 (MTFP) 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
Ensuring Members have the skills and knowledge to deliver their roles.	Refresh the Member Development framework to include delivery of training on diversity and ethics.	Ensure that members of the organisation have the skills and knowledge to fulfil their roles.	Head of Democratic Services	December 2020
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
'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

Issue	Action	Outcome(s)	Lead officer	Deadline
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.	Head of Marketing and Communications	March 2021
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 Joint strategic Needs Assessment (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

Issue	Action	Outcome(s)	Lead officer	Deadline
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
Ensure that the delivery models of the organisation align with the needs of the town and the organisation in a post-Covid environment	Establish an approach to reviewing delivery models to identify changes required to delivery models	Identification of delivery model changes required	Head of Strategy, Information and Governance	March 2021
Ensure that the needs of the town's residents are understood.	Progress joint strategic needs assessments for adults and children's to ensure a joined up strategic oversight of the needs of the town	JSNA for children and young people refreshed and the adults JSNA is commenced	Head of Strategy, Information and Governance	March 2021
Ofsted identified that improvements had to be made to the leadership and management of children's safeguarding services.	Deliver the Ofsted Improvement plan, in particular those actions that have been identified to strengthen leadership within Children's Safeguarding Services.	Improved leadership and management within children's safeguarding services and improved integration with the Council's wider leadership structure to improve outcomes for children.	Executive Director of Children's Services	Ongoing
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	A programme of updates for the Constitution that ensures it remains an	Director of Legal and Governance Services	Ongoing

Issue	Action	Outcome(s)	Lead officer	Deadline
	the rolling review of the constitution during 2020/21.	up to date, coherent document.		

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.. 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 to 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.

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.

Unusable Reserves

Reserves that are held by the Council for accounting purposes. The gains or losses in these reserves are unrealised and as a result are not available for future use by the Council.

Usable Reserves

Unutilised resources set aside to allow planning for future Revenue & Capital expenditure.

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

Middlesbrough Council Summary of Accounts 2019/20



Financial Review

The Statement of Accounts for Middlesbrough Council provides a detailed analysis of the Council's financial position at 31 March 2020, and a summary of its income, expenditure, assets & liabilities during 2019/20. 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 as prescribed by the Code of Practice on Local Authority Accounting in the United Kingdom and to comply with International Financial Reporting Standards. The draft accounts are available on the Council's website: www.middlesbrough.gov.uk.

The Statement of Accounts is expected to be approved by the Council's Corporate Affairs & Audit Committee on 26 November 2020 following the external audit process. 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 as part of the Audit.

In this summary accounts document, we are looking to provide a more understandable and accessible way of stakeholders and members of the public accessing the key figures and highlights for Middlesbrough Council on its financial position. Given the complexities of local government finance, the information provided has been simplified and combined to make it more meaningful information to the user.

At 31st March 2020, the United Kingdom was in the early stages of an unprecedented public health pandemic due to Covid-19. Most of the long-term effects of the virus and a return to normal are at present unknown and will affect the Council predominantly in future financial years.

For further information in relation to the finances of Middlesbrough Council, please contact the Director of Finance, Civic Centre, Middlesbrough, TS1 9FT.

Revenue Budget 2019/20

In setting the revenue budget for the financial year, service budget reductions totalling £9.9 million were approved by the Council on 4th March 2019, together with a 2.99% increase in the general level of council tax plus an additional 2% on the adult social care precept.

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

	£m
Revenue Support Grant	11.959
Top Up Payment	26.861
Local Share of Non Domestic Rates	17.453
Council Tax	55.285
Collection Fund Balance	0.370
Total net revenue budget in 2019/20	111.926

Investment Strategy 2019/20

The refreshed investment strategy for the Council covers the period 2019/20 to 2022/23. It increases the Council's capital investment in long-term assets (principally building the town's economic base, driving financial self-sufficiency and transforming how the Council delivers services) from £153.8 to £166.1m.

The capital expenditure budget for the financial year was originally set at £71.8m, funded by borrowing of £52.9m, capital receipts of £1.1m and grants & contributions of £17.8m.

Financial Outturn position

The budget outturn for the Council was reported to Executive on 16 June 2020 and summarises the Council's final position in respect of the revenue budget and capital programme.

Revenue

£6.591 million. This over spend has been financed from earmarked revenue reserves. The table below summarises the position by Council Directorate.

Growth and Place	25,294	25,537	243
Public Health & 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
Revenue outturn	111,926	118,517	6,591

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

This position 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 demand led pressures in Children's Services a considerable overspend of £6.6m was the eventual result.

Capital

The table below summarises the capital outturn position for 2019/20. Total capital expenditure of £59.717m was incurred against a revised budget of £71.831m.

Department / Directorate	Revised Budget £'000	Full Year Outturn £'000	Over/ (under) spend £'000
Growth and Place	60,524	50,664	(9,864)
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)
Total	71,831	59,717	(12,114)

The spend at 83% of the revised budget reflects delays in progress on a number of major capital 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. The main schemes undertaken during 2019/20 were Teesside Advanced Manufacturing Park and Office Accommodation at Centre Square.

The capital expenditure above was funded by a combination of borrowing of £40.8m, capital receipts of £1.1m and grants & contributions of £17.8m.

Core Financial Statements 2019/20

The **Comprehensive Income and Expenditure Statement** – shows the income and expenditure of the Council for the last financial year in line with both the statutory and CIPFA Accounting Code of Practice requirements. In order to conform with these and generally accepted accounting practice, a number of technical adjustments are required within the accounts for charges related to fixed assets, pensions costs, financial instruments and collection fund accounting. The final position on this statement is set out below:

Comprehensive Income and Expenditure Statement	2019/20		
	Gross Expenditure	Gross Income	Net Expenditure /(Income)
Cost of Services by Service Area			
	£000	£000	£000
Regeneration	38,936	(15,840)	23,096
Public Health & Public Protection	15,450	(19,606)	(4,156)
Education	64,181	(61,448)	2,733
Children's Care	18,149	(841)	17,308
Business Performance and Chang	26,853	(1,075)	25,778
Adult Social Care and Health Integration	85,217	(43,193)	42,024
Environment and Commercial Services	48,327	(4,682)	43,645
Finance Governance & Support	80,561	(60,876)	19,685
Legal and Governance Services	9,272	(5,666)	3,606
Prevention and Partnerships	9,878	(5,736)	4,142
Central Costs	1,094	(8,776)	(7,682)
Total Cost of Service	397,918	(227,739)	170,179
Other Operating Income and Expenditure	2,192	(1,232)	960
Financing & Investment Activities	37,822	(30,098)	7,724
Taxation and Non Specific Grants	0	(134,685)	(134,685)
(Surplus) or Deficit on Provision of Services	437,932	(393,754)	44,178
<i>Items that will not be re-classified to the Surplus or Deficit on the Provision of Service</i>			
(Surplus) or Deficit on revaluation of Property Plant and Equipment Assets			(2,740)
Actuarial (Gains) or Losses on Pension Fund charged to the Pensions Reserve			66,655
Depreciation written out to the Revaluation reserve			(4,572)
Other Comprehensive Income and Expenditure			59,343
Total Comprehensive Income and Expenditure			103,521

There is a difference of £37.6m between the revenue outturn position reported to Executive and the deficit on the provision of services in the statement above. This reflects a number of technical accounting adjustments to comply with proper accounting practice. None of these affect the Council's financial position or reserves. These cover a combination of capital, pensions and collection fund accounting adjustments. Further details on these adjustments can be found in the notes to the statement of accounts.

The **Balance Sheet** – shows the value at the 31st March 2020 of the assets and liabilities owned or owed by the Council. The net assets (assets less liabilities) are matched by revenue and capital reserves held..

31 March 2019	Balance Sheet	31 March 2020
£000		£000
388,464	Property, Plant & Equipment	400,052
27,382	Heritage Assets	27,563
6,906	Other Long Term Assets	19,195
49,751	Money Owed to the Council	55,414
21,844	Cash, Investments, Stocks and Assets for Sale	52,146
494,347	Total Assets	554,370
(162,547)	Borrowing	(234,670)
(37,666)	Money owed by the Council	(44,981)
(199,375)	Pension Scheme	(283,561)
(2,587)	Provisions	(2,507)
92,172	Assets Less Liabilities	(11,349)
(46,666)	Usable Reserves	(41,934)
(45,506)	Unusable Reserves	53,283
(92,172)	Total Reserves	11,349

The net total of assets less liabilities has reduced over the financial year by just over £103m. The Council is now in a negative net worth position. Most of the movement in-year relates to a significant increase in pensions liabilities. It is expected that the assets that underpin the scheme will grow over time to offset these liabilities and to restore the positive nature of the balance sheet position.

The main reasons for the changes this financial year are as follows:

Assets (what the Council owns) - £60.6m increase in total: Around £24m of this relates to capital investment in assets during the year. The remainder relates to changes in working capital such as higher cash holdings and creditors. Some of this was due to increased liquidity in response to the Covid-19 pandemic.

Liabilities (what the Council owes) – £163.5m increase in total: 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. The other major change relates to the capitalisation of the long term lease liabilities on the two Centre Square buildings.

Usable Reserves (available funds) – £4.7m reduction in total: Usable reserves have decreased as a result of the revenue budget overspend offset by grant funding that has been carried forward in advance of need.

Unusable Reserves (unavailable funds) – £98.7m decrease in total: These are reserves held by the Council that cannot be used to fund revenue activities or capital investment. They contain the net sum of all the accounting entries that do not affect usable reserves on either assets or liabilities.

Collection Fund Accounts

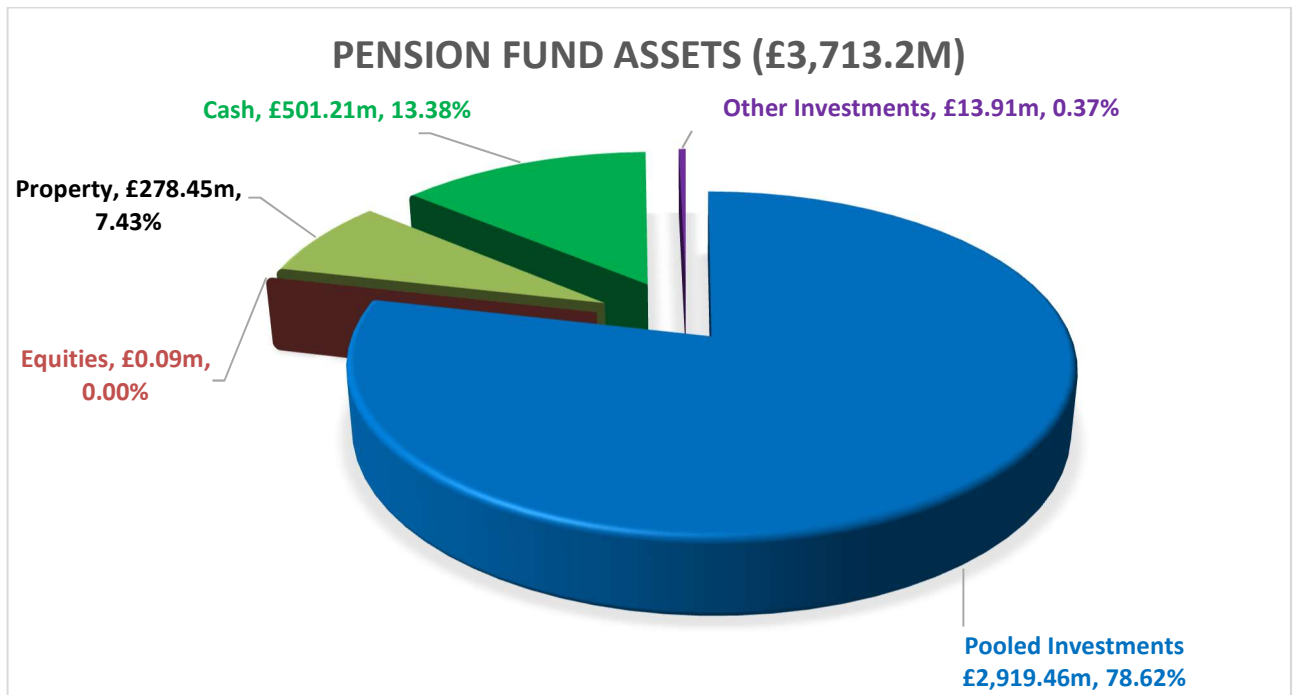
The Collection Fund summarises the transactions of Middlesbrough Council (as the billing authority) in relation to the collection from taxpayers and the redistribution to local Authorities and the Government of Council Tax and Business Rates. These are an important element of funding the Council's revenue budget with the relevant sums and balances at the financial year end set out below. There is an improved financial position in 2019/20 which the Council will benefit from when setting the budget for 2021/22.

2018/19		2019/20		
£000		£000	£000	£000
Total		Council Tax	Business Rates	Total
	Income			
(64,561)	Council Tax receivable	(69,475)	0	(69,475)
(37,737)	Business Rates receivable	0	(36,469)	(36,469)
(102,298)	Total Income	(69,475)	(36,469)	(105,944)
	Expenditure			
	Precepts and Demands:			
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
	Business Rates			
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
	Bad & Doubtful Debts			
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	Total Expenditure	69,237	36,888	106,125
	Contributions towards previous year's estimate			
(1,718)	Collection Fund Deficit / (Surplus)	728	(490)	238
(3,209)	Deficit / (Surplus) for the Year	490	(71)	419
	COLLECTION FUND BALANCE			
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	Balance carried forward at 31 March	(325)	(430)	(755)
	Allocated to:			
(858)	Middlesbrough Council	(271)	(211)	(482)
(99)	Cleveland Police and Crime Commissioner	(41)	0	(41)
(37)	Cleveland Fire Authority	(13)	(4)	(17)
(180)	Central Government	0	(215)	(215)
(1,174)		(325)	(430)	(755)

Teesside Pension Fund Statement of Accounts

The Teesside Pension Fund (administered by Middlesbrough Council) is independently managed and legally separate from the Council's own finances. This statement is an extract from the Pension Fund's accounts and summarises the financial position of the Fund, including all income and expenditure for 2019/20, assets, and liabilities as at 31 March 2020. It is useful to include the financial position on the fund within this summary given that the Council is the accountable body.

The following chart summarises the Assets of the Fund at the end of the financial year:



The assets on the pension fund have decreased from £4,083.2m to £3,713.2m, a decrease of 9.1% during the financial year. This is due in the main to the COVID-19 pandemic and the uncertainty in global financial markets at that time. Most of this loss to the fund has recovered at the time of publishing the accounts as the financial markets have stabilised after the initial shock of the impact of the virus.

Further details on the financial position of the Pension Fund and its accounting policies can be seen within the detailed Statement of Accounts for the Council. (www.middlesbrough.gov.uk).

This page is intentionally left blank

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

26 November 2020

Dear Sirs

MIDDLESBROUGH COUNCIL: STATEMENT OF ACCOUNTS – 31 MARCH 2020

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

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

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

A. Financial Statements and Financial Records

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

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

and are free of material misstatements, including omissions. We have approved financial statements

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

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

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to our attention by the auditor because either they are insignificant or we do not feel they add any value to the user of the accounts.

Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:

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

B. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

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

2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the Covid-19 pandemic.

3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 26 November 2020.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From 25 July 2019 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorised access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

C. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. There have been no events, including events related to the Covid-19 pandemic, subsequent to year end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

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

G. Reserves

We have properly recorded or disclosed in the consolidated and council financial statements the useable and unusable reserves.

H. Use of the Work of a Specialist

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

I. Retirement benefits

On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

Tony Parkinson, Chief Executive

Ian Wright, Director of Finance

Charlotte Benjamin, Director of Legal & Governance Services

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

26 November 2020

Dear Sirs

TEESSIDE PENSION FUND: STATEMENT OF ACCOUNTS – 31 MARCH 2020

This letter of representations is provided in connection with your audit of the financial statements of Teesside Pension Fund (“the Fund”) for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1 April 2019 to 31 March 2020 and of the amount and disposition of the Fund’s assets and liabilities as at 31 March 2020, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and are free of material misstatements, including omissions. We have approved the financial statements.

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the Covid-19 pandemic on our system of internal controls.

6. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in aggregate, to the financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor due to their insignificant impact on the overall values included within the Pension Fund Accounts.

B. Non-compliance with laws and regulations including fraud

1. We acknowledge that we are responsible for determining that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.

5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of non-compliance with any legal duty.

6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

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

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

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

2. You have been informed of all changes to the Fund rules.

3. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the Covid-19 pandemic.

4. We have made available to you all minutes of the Committee meetings of the Fund (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the 2019/20 to the most recent meeting on 9 December 2020.

5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

6. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. No transactions have been made which are not in the interests of the Fund

8. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

9. From 1 April 2019 through the date of this letter we have disclosed to you any unauthorised access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

E. Subsequent Events

1. There have been no events, including events related to the Covid-19 pandemic, subsequent to year end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the information disclosed on pages xxx to xxx and pages xxx to xxx of the Middlesbrough Council Statement of Accounts 2019/20 [page numbers to be confirmed in final version].

2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

H. Derivative Financial Instruments

1. We confirm that all investments in derivative financial instruments have been made after due consideration by the members of the management of the Fund of the limitations in their use imposed by The LGPS Management and Investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of the management of the Fund at the Fund's year end and the terms and conditions relating thereto. Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to you.

I. Pooling investments, including the use of collective investment vehicles and shared services

1. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

J. Actuarial valuation

1. The latest report of the actuary Aon Hewitt as at 31 March 2019 and dated 31 March 2020 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

K. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value the Fund's directly-held property assets and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

L. Estimates –Property valuation

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020.

2. We confirm that the significant assumptions used in making the valuation of directly held property estimates appropriately reflect our intent and ability to carry out the investment strategy to which they relate and reflect the expectations of the Fund.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete, including the effects of the Covid-19 pandemic on valuations, and made in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the Covid-19 pandemic.

Yours faithfully,

Tony Parkinson, Chief Executive

Ian Wright, Director of Finance

Charlotte Benjamin, Director of Legal & Governance Services