

# Middlesbrough Council - Draft Statement of Accounts 2020/21



*Covid Vaccination Bus – Central Middlesbrough*

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The Statement of Accounts for Middlesbrough Council provides an overview of the Council's financial position at 31 March 2021 and a summary of its income and expenditure during the 2020/21 financial year. The accounts are, in parts, technical and complex as they have been prepared to comply with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) as prescribed by the Code of Practice on Local Authority Accounting in the United Kingdom, and International Financial Reporting Standards. The accounts are available on the Council's website: [www.middlesbrough.gov.uk](http://www.middlesbrough.gov.uk) under [Statement of Accounts](#).

The Council's Corporate Affairs and Audit Committee will consider the draft Accounts for information on 22 July 2021 under its governance and external financial reporting remit. The External Auditor's audit results report to the Committee at the end of September 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, and this is available via the Council's website ([www.middlesbrough.gov.uk](http://www.middlesbrough.gov.uk)).

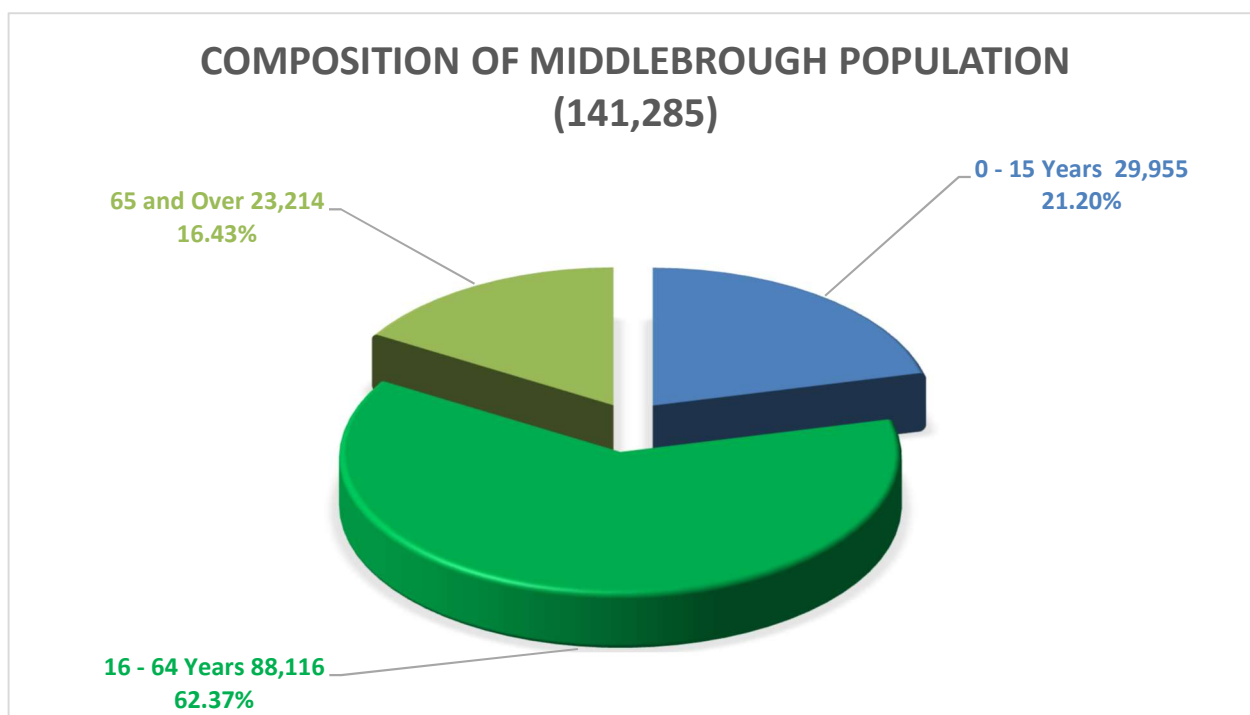
At 31<sup>st</sup> March 2021, the United Kingdom was starting to emerge from an unprecedented public health pandemic due to Covid-19 following an arduous 12 months with four specific periods of lockdown restrictions. Although most of the long-term effects of the virus are at present still difficult to forecast, a return to normal now seems possible in the latter part of 2021, largely due to the success of the UK vaccination programme. The Narrative Report and the Statement of Accounts will aim to give the appropriate context as to how the Council responded to the pandemic and what impact it has had on the Council's financial position and performance during the year. It will also consider its future prospects given that a number of local authorities have reported financial problems expected in the short to medium term.

### 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 3,000 people.

### Population and Related Economic Statistics



Source: Office of National Statistics Mid-Year Estimates 2020

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. Recent years there has been a greater focus on economic growth, particularly in relation to the town centre, and housing.

Economic data from Nomis Official Labour Market Statistics for the period January 2020– December 2020 shows the following:

	<b>Middlesbrough</b>	<b>North East</b>	<b>Great Britain</b>
Gross Weekly Pay (Median)	£517.50	£523.50	£587.10
Unemployment rate (16 – 64) (as proportion of economically active)	7.3%	6.4%	4.6%

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

### **Political Structure in 2020/21**

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 the second under the leadership of the 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 2020/21 with a Labour member as Chair of 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). These were undertaken virtually from June 2020 to March 2021. Meetings have returned to in person where required from mid-May 2021.

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 2021 was:

Elected Members	47
Mayor Andy Preston (Independent)	1
Middlesbrough Independent Councillor’s Association	10
Middlesbrough Independent Group	13
Labour	18
Conservative	3
Independent	2

2020/21 has been a unique year for the Council with the ongoing Covid-19 pandemic plus it being the first full year of the new Mayor’s Strategic Plan and priorities. Much of the first half of the year was based on the Council’s response to the first lockdown ensuring that public services continued in a safe and reliable way. There was then particular focuses on distributing grants to businesses to ensure these stayed viable whilst they were closed due to the government restrictions, and also with supporting the vulnerable in the community – many of whom had to shield or were out of work. The Strategic Plan was updated as a result of the expected long term impact of Covid-19 on the Town and many of the priorities have had to be revised to take into account the recovery process from the pandemic. The Council’s Medium Term Financial Plan was continually revised as the financial impact was quantified and new funding streams and initiatives were introduced by central government.

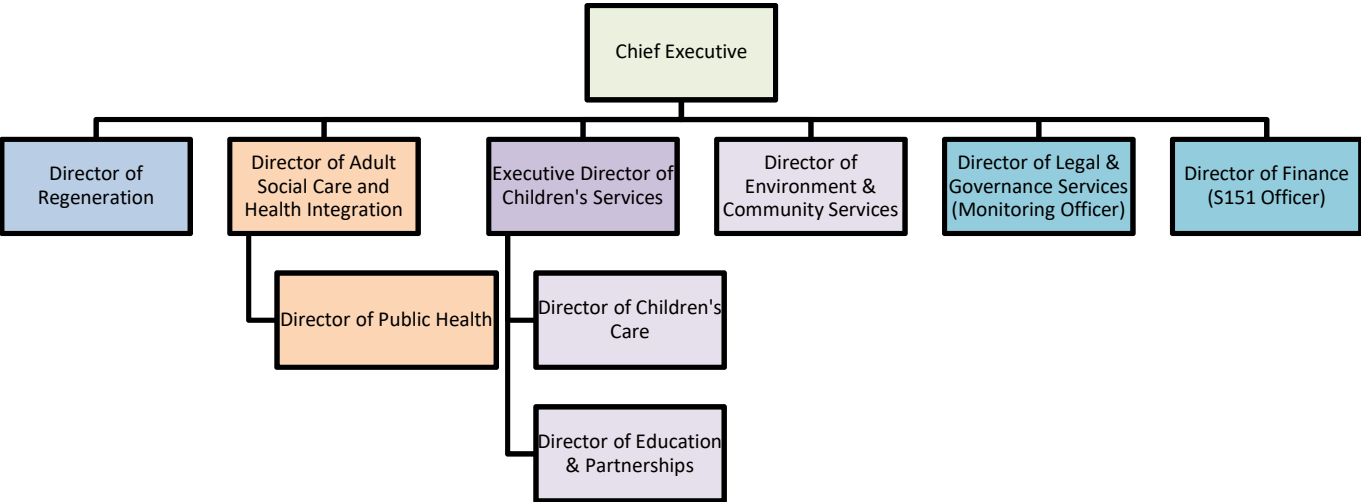
The Executive as the main decision making body were also relatively new in their posts with limited local government experience in comparison with the previous administration. 2020/21 was a learning year for the Council and this been significantly influenced by the impact of Covid-19.

It should also be noted that in April 2021, just after the end of the financial year, that five of the six members of the Executive who had been in post since May 2019 resigned due to some allegations of impropriety against the Mayor. These have been refuted, are currently being investigated by Officers and will be dealt with via the appropriate process if required. The Mayor has recruited a number of new Executive Members and continues to lead the Council and make decisions. The Members who resigned continue to act as ward councillors and backbenchers within the Council

**Management Structure**

**Leadership Team**

The senior management structure of the Council at 31<sup>st</sup> March 2021 is set out below:



During June 2020, the Chief Executive implemented a restructure of LMT following the departure of the Strategic Director of Finance, Governance and Support and the early retirement of the Executive Director of Growth & Place. The Chief Finance Officer (S151) role was replaced by a Director of Finance post reporting directly to the Chief Executive. The Executive Director post was not replaced and instead its direct reports, the Director of Regeneration and Director of Environment & Community Services, are now line managed by the Chief Executive.

**The Mayor’s Ambitions for Middlesbrough and the Strategic Plan**

Andy Preston is the Mayor and first citizen of Middlesbrough for the period 2019-2023. 2020/21 is the first full year of the Mayor’s Strategic Plan, which was developed during 2019 and agreed by Council in February 2020. In February 2021, the Plan was refreshed to reflect the impact of Covid-19 and the UK’s exit from the European Union on Middlesbrough and on the Council’s strategic priorities.

Mayor’s Priorities (2020-2023)

The current Strategic Plan is based around the following key themes, with specific Mayoral priorities within each theme:

- 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. 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.

## **Investment Strategy for Middlesbrough**

An update of the Medium Term Financial Plan (MTFP) was presented to Council on 26 February 2020, the report included the £142.3m million Investment Strategy for Middlesbrough for the period 2020/21 to 2022/23, supported by £99.0 million of the Council's own resources. The investment will support a number of major regeneration schemes plus supporting the town centre and growing affordable housing in the immediate vicinity.

- Acquisition of Town Centre properties;
- the two construction of the two new major Boho buildings (8 & 10);
- the development of new housing in the town via Middlesbrough Development Company;
- Affordable Housing & Housing Growth Schemes;
- East Middlesbrough Community Hub;
- A66 Throughabout;
- the development of Middlesbrough rail and road connectivity; and
- the development of new housing in the town via Middlesbrough Development Company.

## **Customer Strategy Programme**

The vision of the Council's Customer Programme is to transform delivery of services to the community & customers, providing everyone with excellent service and access to self-serve through an extensive range of channels and platforms.

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

## **Our Values**

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

Our Values:

- Passionate - We believe in Middlesbrough and are proud about the Town;
- Integrity – We are open and transparent and treat everyone with respect;
- Creativity – We have the courage to try new ideas and new ways of working;
- Collaboration – We work with others to make Middlesbrough better; and
- Focus – We are clear about what we will deliver to meet the needs of the Town.

## **Performance**

The Council's Scheme of Delegation gives the Executive collective responsibility for corporate strategic performance, together with associated action and a quarterly reporting process gives them the necessary information to discharge these responsibilities.

The Council uses a narrative update approach to measure performance during each quarter of the financial year and any issues. Although most priorities are broadly on track in terms of the Mayor's initial ambitions, these have needed to be flexible and revised due to the pandemic and the changing levels of the virus in the Middlesbrough area. The recovery aspect of the Covid-19 response has now been integrated as part of the Council's strategic priorities going forward in the newly agreed 2021-24 plan.

Below are the main priorities that were monitored by the Executive during 2020/21. These were set in February 2020 and were part of the Strategic Plan for 2020-23.

#### Tackling crime and anti-social behaviour head on

The impact of Covid-19 on crime and anti-social behaviour (ASB), both nationally and within Middlesbrough, remains significant. At 46.2 incidents per 1,000, the combined recorded crime and ASB measure in Middlesbrough showed a 14% decrease at the end of Quarter Four 2020/21 from the end of Quarter Three. The rate at Quarter Four was also 7% below the rate for the same period in 2019/20, and 14% lower than 2018/19

The Council continues to implement a range of actions to tackle crime and anti-social behaviour in the town in partnership with Cleveland Police and other agencies, with street wardens issuing 1,281 warnings and 303 Fixed Penalty Notices in total during 2020/21. January and February 2021 saw a crackdown on properties involved in drug dealing in Newport ward.

Concern about the potential longer term impact of Covid-19 on mental health and substance misuse has been well-reported nationally. The new commissioning model for complex needs launched in April 2021 and will seek to address these issues by improving outcomes for people with complex, multiple needs.

#### Ensuring Middlesbrough has the very best Schools

The Department for Education has announced that exams in 2021 will not go ahead as normal due to the ongoing pandemic. As in 2019/20, GCSEs, AS and A Levels will be awarded grades based on teacher assessment.

Outwood Academy Riverside, Middlesbrough's first new secondary school in a generation, moved into its new temporary base at Russell Street during February 2021. Work on the school's permanent campus next to Middlesbrough College is due to start early next year, and it is expected to open in early 2024.

During Quarter Four, Middlesbrough pledged to be the first town or city in the UK to ensure every child will have access to an internet device to support their education. The Council will spend £350,000 on laptops and tablets to support more than 1,000 children.

#### Ensuring our Town is an absolute leader on Environmental Issues

In Quarter Four Middlesbrough was named a "Tree City of the World" by The Arbor Day Foundation and the Food and Agriculture Organisation of the United Nations in recognition of its commitment to urban forestry.

On 1 September 2020, the Executive approved consultation on the adoption of an emerging Green Strategy to deliver on the Council's obligations to address climate change.

Household recycling levels are lower than the national and regional average in the Town. The Council continues to provide targeted education and training to the local community to try and encourage greater levels in line with government priorities and targets.

#### Promoting the welfare of and protecting our children, young people and vulnerable adults / Transforming Children's Services

The Child Protection (CP) Plan rate rose from 178.4 per 10,000 to 201.6 at Quarter Three, while the rate of children looked after (CLA) by the Council decreased from 204.0 per 10,000 at Quarter Two to 194.5. This increase in CP is an ongoing trend, at Year-end 2019/2020 it was 116.5 per 10,000. While the decrease in the rate of CLA by the Council is positive, both CP and CLA rates continue to be the highest in the North East.

The declining rate of children looked after by the Council since its high of 211.0 per 10,000 in July 2020 can be attributed to improvement work being undertaken within the Children's Care services. Following the OFSTED inspection, thresholds have been reviewed and re-aligned, and new strategies to help reduce the number of children in care are starting to bear fruition, examples of which are detailed below. A good indicator that improvement work is having results can be seen when comparing our figures with



those of other local authorities, where they are seeing a continuing rise in CLA

The continuing increase in the rate of children subject to CP also demonstrates a re-alignment of thresholds, and the continuing efforts of the Council to ensure that children receive the right level of support for their needs. Schools have reported a greater level of complexity in cases, partly due to the lack of available earlier interventions during the first national lockdown, which prevented the escalation of risk. One third of assessments completed have domestic abuse as a factor, due to a higher level of need presented, which reaches a social care threshold due to lockdowns and a reduced early intervention offer.

#### Working with communities to improve local health and wellbeing / Joining up health and social care

The Council has developed a health inequalities toolkit to support Covid-19 recovery planning and ensure proper consideration was given to the impact the virus has and will continue to have on groups and individuals. This toolkit was approved during Quarter Three, and Health Scrutiny Panel has acknowledged it as a key tool for developing inclusive economies. Advanced public health practitioners have been allocated to support each of the recovery work streams in the identification and mitigation of health inequalities as part of recovery.

In addition, a community champion's model was established, with 41 community champions recruited covering a range of targeted groups, and a citizen-led approach to local communications adopted, with 21 grants of up to £5,000 issued to develop tailored messaging around testing, self-isolation and vaccination for targeted groups.

The Council is also continuing to provide support to the health and social care sectors. During Quarter Three it has worked closely with the NHS to support hospital discharges as part of efforts to ensure the NHS is not overwhelmed by cases during the current wave of the pandemic. It is also continuing to act as a co-ordinator for PPE supplies for the care sector, and education. In addition, during Quarter Four it will be co-ordinating vaccine access to social care front line staff within the Council and the wider sector.

#### Working with local communities to redevelop Middlesbrough's disadvantaged estates

Locality working is now operating in both the areas agreed by the Executive during Quarter Two, with a small number of operational staff physically using the locality hubs and a wider multi-agency team working remotely. A strategic Design and Implementation Group is meeting monthly to oversee the development of action plans based on community-led priorities.

Community involvement work has been delayed by the current Covid-19 lockdown, however communication with key community members has enabled locality managers to plan community projects that will resume as soon as restrictions lift. In addition, significant work has taken place in Newport linked to 'safer streets' and this is having positive impacts on the neighbourhood

#### Transforming our Town Centre

Town centre footfall decreased by 11% in Quarter Three from Quarter Two (from 2,610,000 to 2,311,000). The decrease was primarily driven by reduced footfall in November, at just under half a million. Footfall in December, with Christmas and late night shopping, increased to 1,048,000 – the highest monthly figure since recording commenced in February 2020. However, the continued closure of some premises, national consumer confidence and most particularly the continued absence of the office-based town centre workforce will continue to have an impact on footfall within the town centre.

#### Building more Town Centre homes – and protecting our green space

137 houses were completed during Quarter Four increasing performance from 35% to 37.1% of the overall Investment Prospectus target. Also in the final quarter of the year, Middlesbrough received an allocation of £14.1 million from the Future High Streets Fund. This will help to boost the town's population and create a regional leisure hub. The Council's bid also envisaged 650 new town centre homes for around 1,500 residents, with retail space converted to ensure the town has the right mix to attract footfall and spending. Investment will also be channelled to key projects including the old Town Hall, the Captain Cook pub, the replacement for the Southlands Centre and Captain Cook Square.

### Making Middlesbrough look and feel amazing

The 20-week initiative to purge Middlesbrough's potholes was successfully completed during the final quarter of the year. The scheme repaired 5,350 defects (equivalent to 26,750 individual potholes), with 13,898m<sup>2</sup> patches completed and 17,663m<sup>2</sup> of carriageway surfacing undertaken by the Council's main contractor. Street cleanliness also improved significantly during 2020/21 with the proportion of sites inspected classed as acceptable increasing to 93%, up from 88.5% in the previous year.

### Implementing our Cultural Strategy

The Council's performance venues remained closed for all of the year in line with Covid-19. However Middlesbrough Mela 2020 received national recognition in being named as a winner in the 'Best Online Mela' category by the UK Bhangra Awards 2020. The impact of Covid-19 on the Council's culture ambitions will continue to be a key focus of its Recovery Plan when activity is resumed.

### Improving Middlesbrough's Rail Connectivity

A £35m local partnership has been formed to transform Middlesbrough train station, with support from rail operators. The scheme will deliver more train services to the town, including a direct rail link to London, platform extensions to accommodate longer trains and major customer service improvements. It will be a major contributor to the regeneration of the surrounding area, with accompanying business units on Zetland Road. Works commenced in January 2021 with the extension of platform 2.

### Developing Middlesbrough as a residential, leisure & commercial centre

The £2.3 million Boho 8 project – the latest element of the hugely successful Boho quarter and the first development within Middlesbrough's Digital City project – was completed in January 2021. Plans for Boho X, the flagship project for the digital area with funding from the Tees Valley Combined Authority were also developed further. The Boho Village project (in partnership with Middlesbrough Development Company) to build 61 new apartments in Middlehaven also started on site at the end of March 2021.

Plans to build an urban farm in an historic part of Middlesbrough were approved in Quarter Four. The farm will provide a street café and shop selling produce grown on site, and facilitate the creation of jobs for local people.

### Winning investment and creating jobs

Commercial and housing investment in Middlesbrough remains in line with targets, with 54.8% (£342,286,853) of the overall Investment Prospectus targets achieved at the end of the quarter – up from 52.2% (£326,086,853) at the end of Quarter Three. As with previous quarters, the rate of growth remains low given the ongoing pandemic.

The number of new jobs attributable to the Investment Prospectus increased to 33.3% (1,666 total jobs) of the overall Investment Prospectus target (up from 26.2% / 1,354 jobs at the end of Quarter Three), driven by the new jobs brought by companies moving into Middlesbrough Centre Square offices.

The rise in unemployment as a result of COVID-19 poses a significant risk to living standards – claimant count in Middlesbrough has been steadily rising since December 2020, where it was at 10%, and has increased to 10.5% at the end of Quarter Four – 3.3% higher than the regional average.

### Introducing a new era of openness and transparency

During 2020/21, the Council continued to ensure its democratic processes were accessible to the public by broadcasting all formal committee meetings. Following the cessation of regulations to enable remote committee meetings to be held, the Council reverted to in-person meetings from the end of Quarter Four.

Over 1,225 datasets are now available on the Council's Open Data site. The site continues to be refreshed on a weekly basis with additional data added in response to request from residents, members, regulators, and others.

### Creating positive perceptions of our Town on a national basis

A Marketing and Communications Delivery Plan for 2021-23 was finalised during Quarter Four, and is

now in place. The delivery plan was presented to the Corporate Management Team and the Ad-Hoc Scrutiny Panel during Quarter Four for their views. Alongside priority work relating to Covid-19, the Marketing and Communications team continued to concentrate on media activity linked to the Council's strategic priorities.

#### Being recognised as a good Employer

Employee sickness absence decreased from an average of 4.7% of working time at the end of Quarter Three to an average of 4.4% during Quarter Four. At the same point in 2019/20 this stood at 4.3%.

The Council continues to support its workforce through the pandemic via the provision and effective utilisation of remote working technologies and a range of individual support initiatives, including face-to-face counselling. While under current restrictions, employees must work at home wherever possible, an exceptions process is in place to allow employees access to office space in view of their household & personal circumstances, subject to a robust managerial risk assessment. Taking into account illness from Covid-19, the 2020/21 sickness figures strongly suggest enabling home working has had a positive impact on employee health and wellbeing, and this will inform the Council's future working arrangements.

## Directorate Achievements

### Regeneration

- Provided 3,389 separate Covid-19 related business grants totalling £15.3m.
- Successfully letting 78% of the available space in Centre Square buildings 1 and 2.
- Successfully letting 59% of the available space at Tees Advanced Manufacturing Park with a further 27% completing in 2021/22.
- Acquisition of the Captain Cook Shopping Precinct.
- Securing £44,000,000 of Governments grants from the Towns Fund / Future High Street Fund / Brownfield Housing Fund for a number of regeneration initiatives including:
  - Repurposing of the Captain Cook Shopping Precinct into a high quality leisure destination
  - The creation of 1,200 houses / apartments in and around the town centre / Middlehaven
  - Contribution to the expansion of Middlesbrough College campus
  - Contribution to the creation of community facilities at Nunthorpe and East Middlesbrough.
- Completion of the Boho 8 building, providing 10,000 square feet of high quality office space for the expanding digital sector.
- Supported the cultural partnership to work with over 450 artists and bring in over £1million fundraised income.
- Raised significant funding for Middlesbrough Mela through a new strategic relationship with Tees Valley Community Foundation.

### Environment and Community Services

- The Locality Working model was launched within Newport & North Ormesby wards, resulting in multi-disciplinary teams from the Council, Cleveland Police, Cleveland Fire, and Thirteen being co-located within the communities. This joint working and collaborative approach has led to improved community cohesion, improved health, safety, local economy and outcomes for children.
- Significant works to improve security and safety by the installation of CCTV units in various locations in addition to the development of a new alley gate management system.
- Adoption of a new approach to tackling environmental crime by creating the "flying squad" and increasing enforcement, resulting in a rise in prosecutions and a reduction in fly tipping.

- The Urban Tree Planting scheme has resulted in the planting of 1,200 trees throughout the town.
- The Highways service carried out a “Pothole Purge” to improve road conditions in each ward within the town.
- Completion of flood alleviation initiatives at Saltersgill and Marton West Beck in conjunction with the Environment Agency.

## Public Health and Public Protection

- Built a community champions model as part of our Covid-19 response and secured £480,000 national funding to expand and develop this approach.
- Secured up to £5m investment over 3 years across local authorities and police to take a whole system approach to tackling drug related deaths and other associated issues through Project ADDER (Addiction, Diversion, Disruption, Enforcement and Recovery).
- Delivered activities to 937 children and young people at Easter 2021 as part of the Holiday Activities Fund.
- The Keeping Well at Home TV programme features were broadcast across Teesside and Tyne and Wear on North East Live, from the 23rd November 2020 – 16th April 2021 and reached 7,930,000 viewers, with an average of 40% of viewers aged over 65 and 30% aged between 50-64 years.
- Launched a new healthy start vitamin scheme during Covid-19, which has seen 3,500 families receive healthy start vitamins which is approximately more than a 50% increase on previous years.
- Secured funding to increase the emotional health and well-being/SEND offer within our School Nursing Service to support Covid-19 recovery.
- Successful with a joint bid for research funding with Teesside University to further look locally at the impact of covid on babies and families born in lockdown.
- Mobilised a seven day Covid-19 response to schools across Middlesbrough supporting on all reported positive cases, tracking of close contacts, risk assessments, out breaks and interpretation of guidance. The service which led to over 13,000 children having to isolate between September 2020 and the end of March 2021 as a result of being a close contact.
- Worked in partnership to developed a multi-agency best start pathway which will be launched in July 2021 in Newport and North Ormesby to provide additional support to families from the anti-natal period until the baby is 2 years old.
- Secured funding to launch a literacy coach working with families with children under to, to encourage reading, supporting the development of literacy, speech, language and communication skills across the family.
- Successfully supported bids for schools to offer affordable warmth vouchers to their vulnerable families who were struggling to pay for increased energy costs with families being at home all the time during Covid-19.
- Secured funding for mental health interventions in schools to reduce inequalities from Covid-19.
- Successfully launched the emotional wellbeing network.

## Children's Services

- Continued to demonstrate improvement since the 2019 Inspecting Local Authority Children's inspection.



- DFE commissioner reviews in May 2020 and November 2020 – reviewed Middlesbrough Council’s capacity to improve and agreed at these points that alternative delivery models were not required and appropriate improvements were evident.
- Ofsted monitoring visit in September 2020 reported positive improvement to MACH and Assessment service with thresholds having been realigned and green shoots of improvements to practice.
- Delivery of Future for Families service, our edge of care model.
- Opening of Daniel Court 16+ provision.
- Significant reduction in children in care numbers throughout the year as a result of improved monitoring of permanency and use of commissioned Innovate Service to good effect.
- Increase in year of the use of in house fostering capacity.
- Children and families received Free School Meals (even when at home, in isolation or ‘lock down’).
- All children received free laptops and internet access to ensure they could participate in high quality online learning.
- Positive Focused visit from Ofsted focusing on key elements on education.
- Moved Youth Offending Service and Special Education Needs & Disabilities to hybrid delivery models with investment in technology to allow staff to be effective whilst home based and visiting young people’s homes.

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

- Continued delivery of adult social care services throughout the COVID-19 pandemic. This has required resourcefulness and resilience from staff as they have had to work in flexible and evolving ways in the face of an unprecedented operational challenge.
- The service continues to score more highly than the England average on all included measures in the 2020/2021 Adult Social Care Outcomes Framework survey, a statutory return submitted by service users.
- Completed the renovation of Cavendish House in order to provide a new base for the Connect Service and to co-locate the directorate’s preventative services.
- Our hospital social work team based at James Cook University Hospital provided extended hours hospital discharge support, seven days per week, throughout the peaks of the Covid-19 pandemic response.
- Reviewed and re-configured our Occupational Therapy Team to improve prompt access to high quality occupational therapy services.
- Continued to operate the Disabled Facilities Grant which has supported vulnerable individuals to access a range of initiatives including the winter warmth scheme.
- Established and operated a warehouse base co-ordinating PPE supplies for the Tees Local Authorities during the pandemic. This supported Middlesbrough Council in providing and distributing PPE supplies to our social care providers at the time during the pandemic when PPE was in short supply through the normal supply chain.

### **Legal and Governance Services**

- Democratic Services implemented a new committee management system (Modern Gov) to promote greater transparency and openness for the public. It also supports the Council’s green and digital strategies.
- Human Resources have supported the workforce of the Council through the pandemic period whether it is successful working from home, working on direct service delivery within the restrictions of the lockdown and giving direct advice to Managers and employees on Covid-19 symptoms & testing.

- Strategy Information and Governance have co-ordinated the Council's response to the Pandemic whilst adapting the strategic plan and priorities of the organisation to ensure it was still effective and measurable whilst many employees worked from home.
- ICT Services have supported the technical elements of the Children's Improvement Plan and implemented Voicescape an intelligent telephony system specifically designed to improve performance data collection, reduce staff time on telephone and improve the Revenue and Benefits service. They have also supported almost 2,000 to work from home keeping the IT infrastructure of the Council up to date and working efficiently.
- Legal services have restructured and created two new head of service posts based around People and Places. A number of solicitor posts have been filled following vacancies in recent years.

## Finance

- We achieved an unqualified set of Financial Statements from our external auditor for 2019/20.
- Finance led an upgrade of the Council's finance system, Business World, to the latest version of the operating software, Milestone 7.
- A successful budget process was completed for 2021/22 with all Members of the Council voting for the proposed council tax rise of 2.75%. This was achieved through maximum consultation with political groups and the senior leadership team of the Council.
- Successful completion of all Covid-19 and non-Covid-19 financial returns during the year. The monthly Covid-19 returns in particular have been an important element in ensuring that local authorities have been properly funded for the costs caused by the pandemic.
- The Revenues & Benefits Service have successfully managed multiple new grant schemes relating to grants to businesses with income in excess of £30m distributed in a timely and effective way. New policies have been formulated quickly whilst ensuring that appropriate governance processes have been in place to ensure any fraudulent activity has been identified.
- A new centralised approach to managing the Council's overall debt portfolio has been agreed by the senior leadership team. This has been led by the Revenue & Benefits Service, who already manage significant volumes of council tax and business rates debt. The aim of the new approach being to enhance the customer experience whilst reducing debt levels and improving cash flow to the Council.
- The Pensions, Governance and Investments team have introduced a revised investments strategy following agreement by the Pension Fund Committee. This is to move away from equity investments and into alternative investments due to the current economic climate. This policy will continue during 2021/22.
- The Teesside Pension Fund also invested in a new start up bank, based in Middlesbrough, that will be looking to lend to new and developing small and medium sized enterprises.
- The Commission & Procurement team have co-ordinated the vaccination programme for the Council whilst ensuring appropriate levels of personal protective equipment has been purchased, stored and distributed to all those within the Council who have needed it when continuing to deliver services.
- The Valuation and Estates team have updated the assets disposal and purchases policies to ensure the highest standards of governance are applied to these areas, whilst facilitating the purchase of the new civic centre for the Council at Fountain Court within eleven working days of the Executive's decision.

## 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 6).

## Future Challenges/Uncertainties

### Children's Services

The Council's Children Services department has been heavily scrutinised since an inadequate judgement across all aspects of service provision following an Ofsted inspection in 2019. The Council has responded to this by putting in place an improvement plan within the first three months and then working closely with the Department for Education, Ofsted Inspectors, the DFE appointed Commissioner and other key partners. There have been a number of interim visits by Ofsted over the past twelve months, which have positively commented on the response made by the Council, the overall direction of travel and the progress made in implementing the actions in the Improvement Plan.

Some of the initiatives put in place by the Director of Children's Services have managed to alleviate part of the demand led pressures and has reduced the budget overspend by around a third from £7m to just over £4.2m in one year with some assistance from Covid-19 funding.

The latest visit by Ofsted in May 2021 looked at how the children's services care system has performed and continued to improve during the Covid-19 pandemic. A team of five inspectors looked at the Council's early help, social work, fostering and adoption services, against the backdrop of Covid restrictions. The Council's swift response to the pandemic was noted.

In summary, the report commented that senior leaders within the Council are overseeing a "comprehensive programme of improvement" and have a good understanding of what has been achieved and what still needs to change. The report comments on new practice standards within the service that provide clearer expectations of staff. Children have been visited regularly and safely during the pandemic. Social workers were found to be "creative and persistent" in their approach. Inspectors found this work to be making a difference to children's lives. The Multi-Agency Children's Hub has also continued to strengthen delivery.

The report highlights two new areas for improvement, in addition to the issues identified in the Ofsted inspection of 2019 that are already the subject of a comprehensive improvement plan. They are:

- Ensuring vulnerable children and those in care, including those with special educational needs and/or disabilities, receive the education they are entitled to.
- Understanding the identity and diverse needs of children and their families. A better understanding would help decisions around assessment, planning and support.

A further monitoring visit by Ofsted is due to be undertaken towards the end of 2021, however they seem to be content that improvement is being made and that the services can continue to remain with the Council in the short to medium term.

### Covid-19

The ongoing pandemic continues to pose a number of challenges and uncertainties for local authorities going forwards. There is reference to Covid-19 and its impact throughout this narrative report and the draft Statement of Accounts. At the time of issue, the legal restrictions in the UK in relation to social distancing, mask wearing and opening up remaining business are about to be relaxed. The UK's vaccination programme goes from strength to strength and gives optimism for the future.

However, the rates of virus transmission continues to increase with cases of the delta variant throughout the country. This poses a threat to the government's roadmap out of the pandemic, assuming that vaccinations manage the link between cases and hospitalisation/deaths and that the pressure on the National Health Service is not overwhelming, the public may be able to return to a sense of normality in the latter part of 2021. There are though significant risks to the journey out of Covid-19 and scientists and medical officers are already raising concerns about progress over the next few months and the possibility of further lockdowns.

The Council has received notification from central government about funding for the first quarter of 2021/22 with £5.3m allocated, and can claim additional funds from the Sales Fees and Charges scheme and from the Contain Outbreak Management Fund. The service and financial risk is therefore unknown and could be potentially severe for the country and local government sector. The Council is well prepared for these risks as part of its financial planning over the medium term.

## **Brexit**

Although somewhat superseded by Covid-19 during the 2020 & 2021 so far, the impact of the Country's departure from the European Union is still uncertain and will only be fully understood over the coming years. The Council has planned appropriately and is aware of the main elements of the deal agreed with Brussels at the end of December last year. The principal impact on the Council will be the form of legislative changes moving from EU to UK statute but these will only become apparent once the UK government has introduced these updated laws. A small amount of funding has been allocated by the government to each local authority in recognition of the additional workload that will face Council's during the initial phase of the exit from the EU.

## **The Local Government Finance Settlement**

A new Local Government finance system was expected to be implemented commencing from the 2022/23 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 2022/23 & 2023/24 settlements are currently anticipated to be one-year funding agreements based on the previous system and is expected just before Christmas each year as normal. The earliest any new funding system could be introduced would be 1 April 2024.

## **Middlesbrough Development Company**

During 2018/19, the Council created MHome, a Housing Delivery Vehicle (HDV) as a local authority trading wholly owned company limited by shares with the council as the sole shareholder. 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 met 6 times. In 2020/21 this changed to a regular monthly meeting.

The Board of Directors consists of a managing director employed by the company, Middlesbrough Council's Mayor, two Middlesbrough Councillors and one nominated senior Middlesbrough Council officer. This allows a broad range of skills knowledge and experience to be brought to Board meetings and when considering both operational and strategic decisions. It also means that the plans and priorities of the company can be made in the light of ongoing developments at the Council and vice versa. During the next financial year, the company's website will be developed further and information on meetings and decisions will start to be published where appropriate.

MDC has taken the following significant decisions:

- £5.2m investment into redeveloping Tollesby Shops funded by a combination of Council grant funding plus a small commercial loan – February 2020;
- £7m investment in the Boho Village project in partnership with Bright Ideas acting as developer. This is fully funded by commercial loan from the Council – October 2020;
- £17m investment in the CSI residential tower on the old Cleveland Scientific Institute site in the town centre. This is also fully funded by commercial loan by the Council. – April 2021.

Boho Village was on site at the end of March 2021. Tollesby Shops is forecast to start on site in July 2021 with CSI still in the planning & development phase. All the projects are expected to be completed over a 12-24 month period.

In all cases, MDC will aim to attract external funding as a first priority. However, if external funding is not viable and the Council determine a particular project needs to be undertaken a commercial loan can be offered. Any loans are subject to approval by the Council's Director of Finance and are made at a market rate of interest to avoid state aid implications. The loans for Boho Village and CSI above are for repayment over a 35-year term. All loans can be repaid by MDC over the term of the loan via income generated as part of the project. If a development is sold as a whole then the loan can be repaid in full at that point which minimises the level of risk to the Council.

A number of additional pipeline projects are also in development by MDC and business cases will be prepared for these once they are ready for consideration.



During 2020/21 £0.915m was transferred to MDC for the Tollesby Shops project. The total funding from the Council being £1.565m since inception (£1.170m via grant funding and £0.395m by commercial loan. A balance of £0.254m was unspent at 31<sup>st</sup> March 2021. As the level of transactions between the company and the Council are below the materiality threshold for the 2020/21 accounts, group accounts have not been prepared to allow the company to be consolidated into the Council's financial position. However, the continued progress on Boho Village and Tollesby plus the approval of CSI mean that this will be exceeded next year and group financial statements will need to be prepared to comply with the local authority code of practice.

## Financial Review 2020/21

### Revenue Budget

In preparing the 2020/21 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 strategic 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 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 and all requests are required to be approved by the Council's Corporate Management Team;
- 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;
- 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 form efficiency savings;
- 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 S151 Officer where reserves exist these will be reviewed regularly by the S151 officer as part of the Medium Term Financial Pan refresh to ensure that they are still required; 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;
- any new schemes for approval within the Investment Strategy must be firstly approved by the Council's Corporate Management Team;
- a consistent framework for budgeting for staff costs will be implemented; and
- to ensure effective budget consultation processes are followed.

In setting the revenue budget for 2020/21, service budget reductions totalling £6.4 million were approved by the Council on 26 February 2020 together with a 3.99% increase in Council Tax (1.99% increase in general council tax and an increase in the adult social care precept of 2.00%).

The revenue budget for 2020/21 was set at £116.397 million, funded as set out below:

	£m
Revenue Support Grant	12.154
Business Rates Top Up Payment	27.299
Local Share of Business Rates	17.659
Council Tax	58.707
Collection Fund Balance	0.578
<b>Total net revenue budget in 2019/20</b>	<b>116.397</b>

## **Budget Outturn 2020/21**

The Budget Outturn position was reported to Executive on 15<sup>th</sup> June 2021 and summarised the Council's financial outturn in respect of the revenue budget and capital programme. It also covered the impact of the pandemic on the Council's financial position.

### *Revenue*

The Council's total net revenue expenditure for 2020/21 was £114.006 million, a net pressure of £2.391 million against the net budget of £116.397 million. The table below summarises the final revenue position by Directorate.

<b>Directorate</b>	<b>Full Year Budget £'000</b>	<b>Full Year Outturn £'000</b>	<b>Over/(under) spend £'000</b>
Regeneration	3,571	2,416	(1,155)
Environment and Community Services	19,144	18,329	(815)
Public Health and Public Protection	(2,784)	(3,505)	(721)
Education and Partnerships	2,082	1,784	(298)
Childrens Care	38,247	42,480	4,233
Adult Social Car and Health Integration	37,776	35,827	(1,949)
Legal and Governance Services	8,354	8,631	277
Finance	1,298	1,107	(191)
Central Budgets	8,709	6,937	(1,772)
<b>Revenue outturn</b>	<b>116,397</b>	<b>114,006</b>	<b>(2,391)</b>

From this underspend, it was agreed by the Council's Executive to transfer £0.438 million of the Public Health grant underspend to a Public Health Reserve and £1.598 million to an Adult Social Care Covid Recovery Reserve. Both of these transfers are to help fund the future costs of Covid-19 recovery by the Council. Once these have been taken into account the revised underspend against the revenue budget is **£0.355m** for the financial year.

As with previous financial years, the significant revenue budget pressure experienced during 2020/21 continues to be in relation to Children's Services where additional costs on Children's Care (mainly residential agency placements, in-house foster carers, independent fostering agency payments and family and friends' allowances) ended up being £4.2m over budget. This compares with £7.9m over budget in the 2019/20 financial year and illustrates that some of the initiatives introduced over the last couple of years are starting to take effect as placements are managed more effectively and care packages are reviewed. Demand though still remains high within the Borough and above the additional resources that have been allocated to the directorate via the budget process in recent years.

This over spend position corporately for the Council was mitigated by planned savings requirements co-ordinated across all directorates and through stringent financial controls on expenditure budgets, such as staff savings, and an additional focus on income generation via new initiatives such as the Teesside Advanced Manufacturing Park. An additional £1.1m was released via S31 Business rates grant which had been kept in contingency for previous years.

Given the minor underspend position, general reserves at the end of the 2020/21 financial year are at £10.5m which is above the minimum threshold of £9.4m recommended by the Director of Finance.

## **Covid-19 and the financial impact on 2020/21**

The Covid-19 pandemic has had a significant impact on all local authority finances and this will last for years to come in line with the impact on the Country's national finances. The government recognised this immediately in terms of additional funding but also the role that these organisations would play in leading the fight against the pandemic at a local level. In total, four tranches of funding were received for general Covid-19 support

during 2020/21 totalling £15.574m. £0.877m of this was used in the previous financial year leaving £14.697 available for use.

The Sales Fees & Charges Scheme (SFC) scheme, which part funds income shortfalls, involves a 5% deductible rate, whereby local authorities will absorb losses up to 5% of their planned budgeted 2020/21 income, with the Government compensating them for every 75p in the pound of any relevant loss thereafter. Two claims totalling £3.3m have been made under the scheme in the financial year with a third claim covering the final part of 2020/21 for £1.1m made at the end of May 2021. The SFC scheme will continue operating for the first quarter of 2021/22.

A national allocation of Test, Trace and Trace funding was also announced in June 2020. This funding is ringfenced for the testing regime and for any potential local outbreaks. The allocation for Middlesbrough was £1.566m. The Council spent £0.879m of this funding in 2020/21 with £0.687m being available for use in 2021/22.

During 2020/21 the Government also announced a Clinically Extremely Vulnerable (CEV) grant of £0.538m to provide support those at most risk from Covid. £0.340m was used, with £0.198m being rolled forward to 2021/22.

A further Contain Outbreak Management Fund was announced during October 2020 to provide funding to local authorities to support public health activities, such as local enforcement and contract tracing. This was originally based on an amount per head of population depending on which tier a local authority was in. This funding was then extended during the subsequent national lockdown in the early months for 2021. The total amount allocated to Middlesbrough for 2020/21 was £3.968m and this was fully utilised in the financial year.

Various specific grant funding totalling approximately £5.3m was also provided to Adult Social Care, comprising on Infection Control, Workforce Capacity Fund and Rapid Testing.

Also in the spending review and local government finance settlement the Government announced that as well as allowing local authorities to spread collection fund deficits (council and business rates losses) over the next 3 years, they would compensate Councils for 75% of any losses below a pre-determined income threshold.

The financial impact of the Covid-19 pandemic is summarised below:

	<u>Grant</u> <u>Allocation</u> <u>2020/21</u>	<u>Actual</u> <u>2020/21</u>	<u>Cost to</u> <u>Council</u> <u>2020/21</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Extraordinary costs incurred		10.697	
Commercial income losses		0.499	
Unachievable Change Programme savings		1.803	
<b>Total Covid-19 General Support grant (2020/21)</b>	<b>14.697</b>	<b>12.999</b>	<b>-1.698</b>
<b>Sales, Fees and Charges (SFC) income loss grant (2020/21)</b>	<b>4.411</b>	<b>6.525</b>	<b>2.114</b>
<b>NET COST TO COUNCIL OF COVID-19 2020/21</b>			<b>0.416</b>
<b><u>OTHER COVID-19 GRANTS</u></b>			
	<u>Grant</u> <u>Allocation</u> <u>2020/21</u>	<u>Actual</u> <u>2020/21</u>	<u>Grant</u> <u>Remaining</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Clinically Extremely Vulnerable (CEV) - see Note 1	0.538	0.340	0.198
Test And Trace - see Note 2	1.566	0.879	0.687
Contain Outbreak Management Fund (COMF) - see Note 2	3.968	3.968	0.000
<b>Total Other Covid-19 Grants</b>	<b>6.072</b>	<b>5.187</b>	<b>0.885</b>

#### *Additional Expenditure & Income*

There was an additional £10.7m of expenditure above the specific grant funding allocated by government. This included £1.3m for Adult Social Care due to a temporary increase in fees to the care market in line with government guidance. £2.2m was incurred due to delays in placements of Children. £1.3m in procurement and storage of personal protective equipment. £1m in increased highways maintenance work and waste disposal and collection costs. A further £1m was payable in support of the SLM Leisure Trust due to staff being furloughed and impacts on the subsidy required as part of the leisure contract. There was also additional ICT equipment required of £0.6m to allow staff to work from home.

The impact of the lockdown closure of facilities and service has resulted in a loss of totalling £7m for 2020/21, across a broad range of areas. The main areas are as follows:

- Car Parking (£1.9m)
- Cultural activities (Town Hall, Middlesbrough Theatre, Museums, Parks) (£0.9m)
- Catering income from schools (£0.5m)
- Adult Social Care - In house day centre care provision (£0.7m)
- Libraries and Community Hubs – room hire, book sales, and fines (£0.1m)
- Highways - Capital Works and Street Permit income (£0.2m)
- Education Services income from schools (£0.2m)
- Council run Nurseries and Children’s Centres (£0.4m)
- Council Tax Court Costs and Housing Benefits Overpayments (£0.8m)
- Commercial Rents - business units, industrial estates, shops, bus station (£0.2m)
- Capital Finance - Rent and Interest (£0.2m).



## Council Tax and Business Rates Income

During the year there were a number of issues caused by Covid-19 that resulted in significant losses in these areas. These are accounted for in the Collection Fund, a separate legal fund outside of the revenue budget:

- There was an increase in people claiming Local Council Tax Support due to the economic impact of the pandemic. This led to a reduction in the level of council tax collected as those on support only pay 20% of their regular bill. Although the government provided £2.8m of support for this hardship issue, there was still an effect on the collection rate and income generated.
- Housing growth levels may have reduced due to the disruption caused by the pandemic and this will lead to a lower income level if less than budgeted.
- The amount of relief given to businesses, particularly for Leisure, Hospitality and Retail, was increased from 33% to 100% as a result of the pandemic. This resulted in a pressure of circa £17m. Most of this was compensated by S31 grant from Government.
- The level of outstanding council tax and business rates debt has increased and the Council had to review the potential to collect that debt and increase the levels of the bad debt provision where appropriate.
- Government agreed to pay 75% of income losses below an identified threshold due to the pandemic. The Council did not qualify for either of these due to improved collection rates later in the year.

The final outturn position after the various pressures on the Collection Fund was as follows:

Funding	Total Deficit £000	Share with preceptors %	Share of Deficit £000	S31 Grant	Final Deficit £000	3-year spread £000
Council Tax	2,978	83.35	2,482	-	2,482	827
Business Rates	21,784	49.00	10,674	(10,555)	119	40
<b>Total</b>	<b>24,762</b>		<b>13,156</b>	<b>(10,555)</b>	<b>2,601</b>	<b>867</b>

The final outturn positions for council tax and business rates were much improved from the statutory amounts incorporated into the budget setting in February 2021 by approximately £0.4m per year over the 3-year spread period to 2023/24. The improved amounts will be incorporated into the next MTFP refresh.

## Capital

The table below summarises the capital outturn position for 2020/21 for each directorate.

Directorate	Revised Budget £'000	Full Year Outturn £'000	Over/ (under) spend £'000
Regeneration	25,180	24,960	(220)
Environment and Community Services	8,993	7,524	(1,469)
Public Health and Public Protection	0	0	0
Education and Partnerships	4,912	4,093	(819)
Childrens Care	395	414	19
Adult Social Care and Health Integration	3,597	3,012	(585)
Legal and Governance Services	1,713	1,596	(117)
Finance	405	479	74
<b>Total</b>	<b>45,195</b>	<b>42,078</b>	<b>(3,117)</b>

Following a review of schemes, the Council approved a revised capital budget for 2020/21 of £45.195 million as part of its medium-term investment strategy. The Council spent £42.078 million (93%) of this revised budget at the year-end. Out of this £0.105 million is not required going forwards due to a number of completed

schemes. This leaves £3.012 million available for carry forward and this amount has been factored into a rolled forward investment strategy, approved by Executive on 15<sup>th</sup> June 2021.

The £3m underspend is a combination of delays due to joint tender arrangements on the inspection of bridges and other structures (£1.1m), delays on Middlesbrough Development Company council funded schemes (£0.7m) due to funding issues, and delays on other capital schemes resulting from a lack of contractor availability due to the pandemic or other Covid-19 related delays. These under budget positions were offset by bringing forward the sale of the new civic centre at Fountain Court (£1.8m).

### Balance Sheet

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

A summary of the Balance Sheet at the 31<sup>st</sup> March 2021 is set out below:

<b>31 March 2020 (£000)</b>		<b>31 March 2021 (£000)</b>
456,813	Long Term Assets	466,872
97,557	Current Assets	77,391
(100,165)	Current Liabilities	(91,922)
(465,554)	Long Term Liabilities	(503,211)
<b>(11,349)</b>	<b>Net Assets</b>	<b>(50,870)</b>
(41,934)	Usable Reserves	(56,770)
53,283	Unusable Reserves	107,641
<b>11,349</b>	<b>Total Reserves</b>	<b>50,870</b>

The key headline messages to note in relation to the Balance Sheet at 31<sup>st</sup> March 2021 are as follows:

- Long-term assets continue to increase due to the Council's current ambitions on its investment strategy.
- Current assets are lower than last financial year due to cash balances held for Covid-19 initial response purposes being used during the financial year. There are also less Assets held for Sale due to the pandemic.
- Current liabilities have reduced slightly during the financial year. This is due to £20m short term borrowing taken out in March 2020 originally as part of the Covid-19 response being repaid in year. This has been offset by increasing amounts now owed to central government where ring-fenced Covid-19 funding has been allocated, used and now needs to be repaid if not all required.
- Long-term liabilities have increased mainly due to the current 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.
- In 2020/21 the pension fund investments performed strongly following the initial impact on the markets of Covid-19. However looking forward corporate bond rates remain low due to the fragile nature of the UK economy and this is keeping liability levels on pensions higher than they would usually be, whilst assets on the pension fund struggle due to low interest rates.
- Usable reserves have increased significantly in line with the trend seen for most local authorities. Almost all of this relates either to Covid-19 funding allocated by the government and not yet spent, or is where the Council is providing from its own resources for future Covid-19 costs. The main financial pressures are expected to hit local authorities in the couple of years after Covid-19 recovery begins.
- 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 year on year change at 31<sup>st</sup> March 2021 reflects unrealised pension and capital accounting losses, plus the transfer of any negative dedicated school grants for a 3-year period. Under regulation, these DSG losses cannot be charged to the General Fund account.

The Council's balance sheet continues to be in a negative net worth position (i.e. the liabilities are greater than the assets held by the Council by £51m following a £40m 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 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 £314m in total. An increase of £30m during 2020/21 mainly due to corporate bond rates continuing to be low and court judgements continuing to increase liabilities. Although the loss will not crystallise at any one point in time but will be made up of benefits over the next 20-30 years, it erodes the current financial position of the balance sheet in line with IAS19 principles on retirement benefits. In addition, pension 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.

It is also worth reiterating that both long-term 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 and actuaries 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. The Council is comfortable with these issues in the short term and until a greater degree of normality has returned where any negative net worth should unwind. No specific measures are being undertaken within the Medium Term Financial Plan to cater for this.

## 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 2020/21.

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

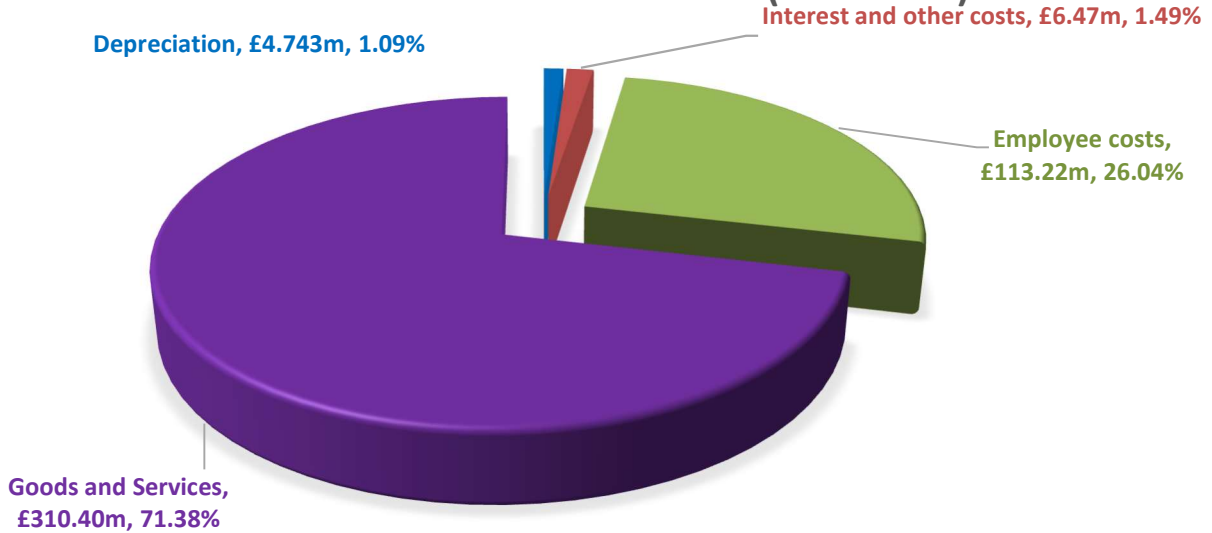
**Independent Auditor's Report to the Council** - the external auditor, Ernst & Young LLP have prepared this report which is included after the accounts have been audited.

**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. This Statement explains how the Council has complied with the Code of Corporate Governance during 2020/21 and that this will be published with the audited accounts.

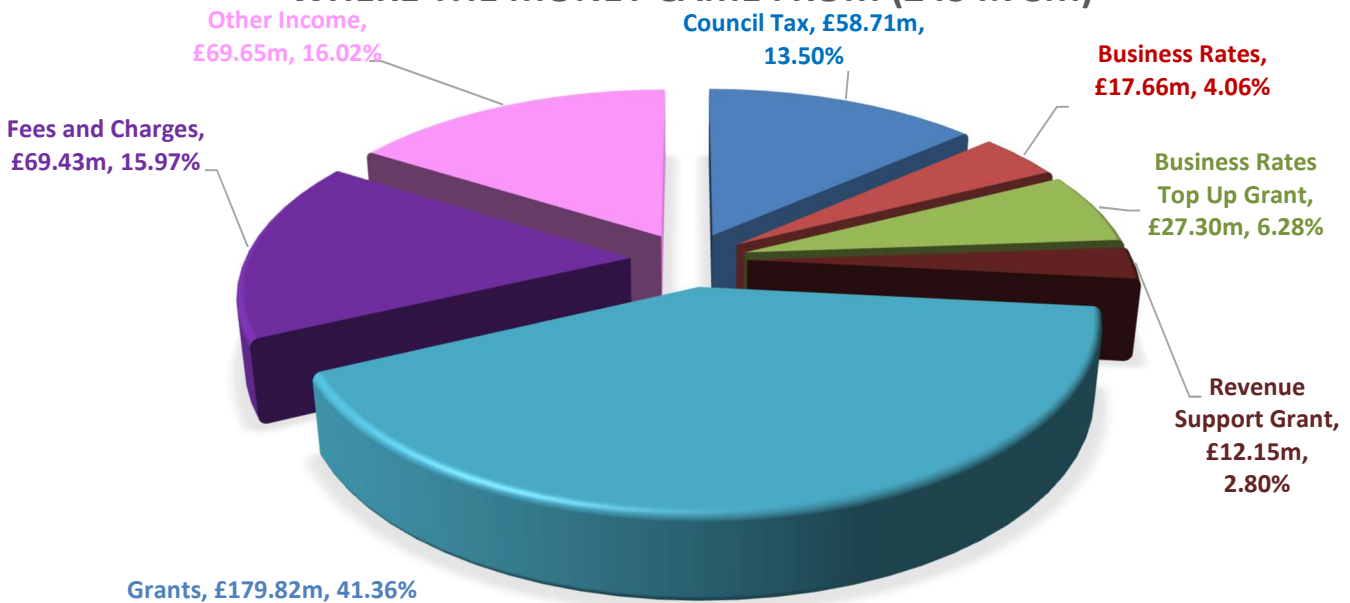
The **Core Financial Statements** comprise:

- The **Comprehensive Income and Expenditure Statement** – shows the income and expenditure of the Council in line with statutory regulations, international financial reporting standards 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/lower than those set out below (expenditure by £23m and income by -£9m) due to technical adjustments to comply with proper accounting practice, but which are not funded by the taxpayer. More details on this are set out in the notes to the accounts.

### WHERE THE MONEY WAS SPENT (£434.83M)



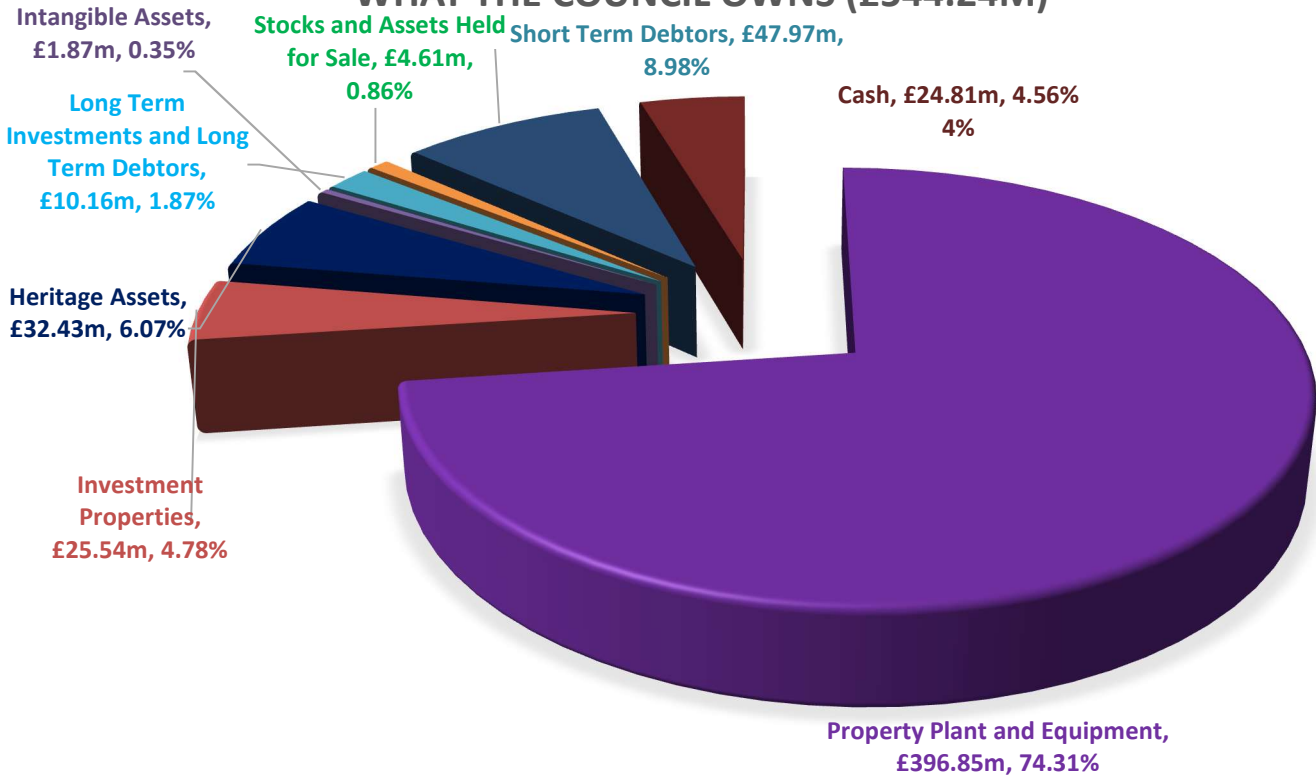
### WHERE THE MONEY CAME FROM (£434.78M)



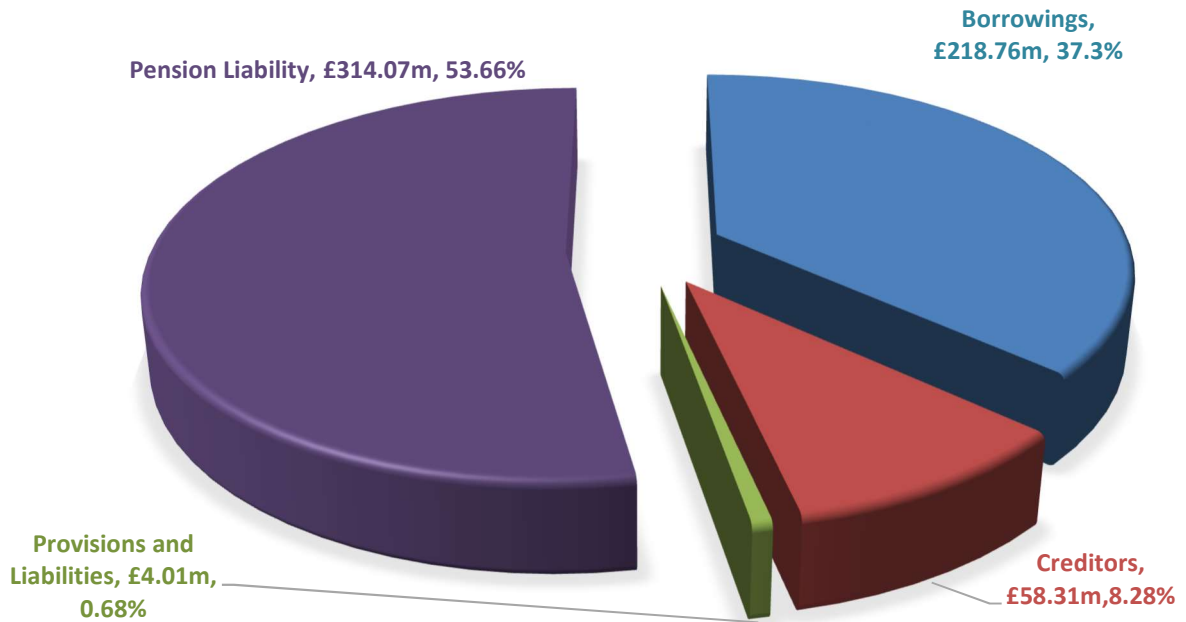
- The **Balance Sheet** – shows the value as at the Balance Sheet date of the assets owned and liabilities incurred by the Council. The total net assets (assets less liabilities) are equivalent to the revenue and capital reserves held by the Council.

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

### WHAT THE COUNCIL OWNS (£544.24M)



### WHAT THE COUNCIL OWES (£595.13M)



- 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.

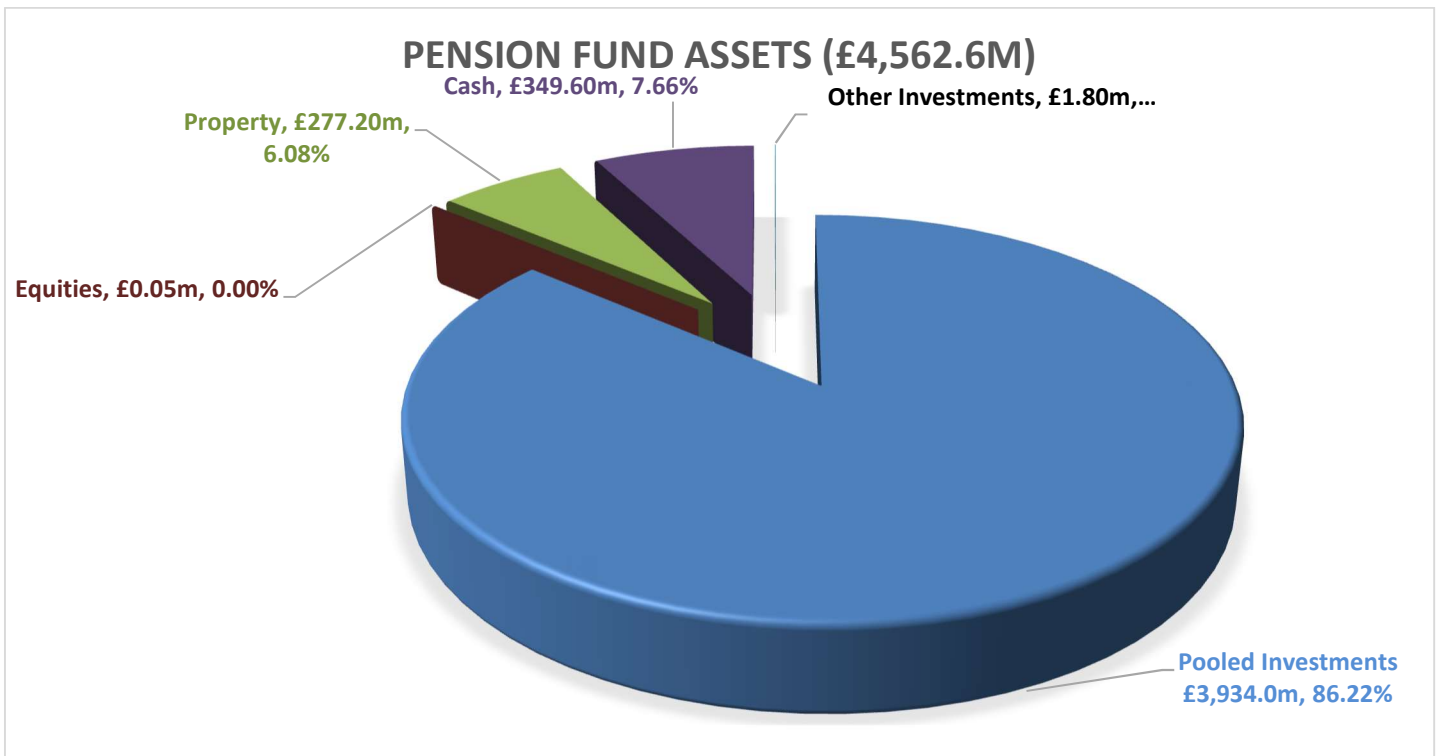
**Accounting Policies Note** - this note explains the basis for the recognition, measurement, and disclosure of transactions in the Accounting Statements.

**Notes to the Accounts** - provides 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 2020/21, assets, and liabilities as at 31 March 2021.

The fund's total value had reduced significantly by around £0.5bn to £3.7bn at the previous Balance Sheet date due to Covid-19 and the initial uncertainty in global financial markets at that time. At the end of Quarter 1 of 2020/21 and through the next three quarters, the fund had stabilised and grew consistently with the net assets totalling £4.6bn at the year-end. An increase of £0.8bn or 20% during the year.

The following chart summarises the assets of the Fund at 31<sup>st</sup> March 2021:



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.

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 2021 and its income and expenditure for that year.



**Ian Wright**  
**Director of Finance**  
**Middlesbrough Council**

**20 July 2021**

# 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 a Pension Fund Committee;
- 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 2021 and of its income and expenditure for that year.



**Ian Wright**  
**Director of Finance**  
**Middlesbrough Council**

**20 July 2021**

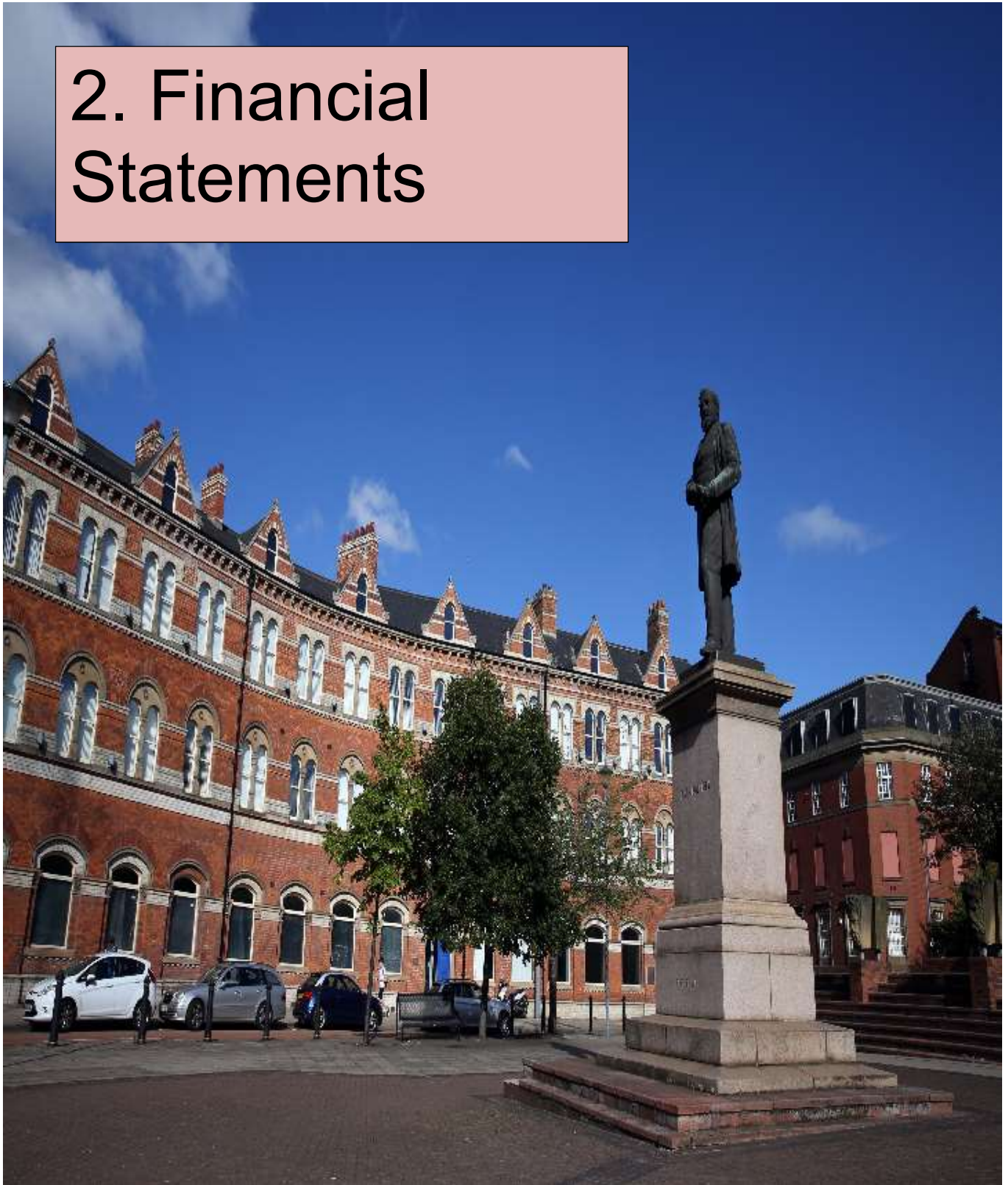
## **Auditor's Report – Middlesbrough Council**

To follow once the external audit of the Council's accounts is complete for 2020/21.

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

To follow once the external audit of the Pension Fund accounts is complete for 2020/21.

## 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.

2020/21	General Fund Balance	Earmarked Revenue Reserves	Capital Receipts Reserve	Direct Revenue Funding Unapplied	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 1st April 2020</b>	<b>(9,400)</b>	<b>(22,094)</b>	<b>(145)</b>	<b>0</b>	<b>(13,078)</b>	<b>(44,717)</b>	<b>56,066</b>	<b>11,349</b>
<b>Movement in reserves during 2020/21</b>								
Total Comprehensive Income and Expenditure	34,063	0	0			<b>34,063</b>	5,458	<b>39,521</b>
Adjustments between accounting basis & funding basis under regulation (note 6)	(50,854)	0	150	(51)	5,148	<b>(45,607)</b>	45,607	<b>0</b>
Transfers to/(from) other reserves	15,691	(16,200)				<b>(509)</b>	509	<b>0</b>
<b>Net Decrease / (increase) in year</b>	<b>(1,100)</b>	<b>(16,200)</b>	<b>150</b>	<b>(51)</b>	<b>5,148</b>	<b>(12,053)</b>	<b>51,574</b>	<b>39,521</b>
<b>Balance at 31st March 2021 carried forward</b>	<b>(10,500)</b>	<b>(38,294)</b>	<b>5</b>	<b>(51)</b>	<b>(7,930)</b>	<b>(56,770)</b>	<b>107,640</b>	<b>50,870</b>

To aid understanding from the 2020/21 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).



2019/20	General Fund Balance	Earmarked Revenue Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 1st April 2019</b>	<b>(11,904)</b>	<b>(21,525)</b>	<b>(77)</b>	<b>(13,160)</b>	<b>(46,666)</b>	<b>(45,506)</b>	<b>(92,172)</b>
<u>Movement in reserves during 2019/20</u>							
Total Comprehensive Income and Expenditure	44,178		0	0	<b>44,178</b>	59,343	<b>103,521</b>
Adjustments between accounting basis & funding basis under regulation (note 6)	(39,126)		(68)	(252)	<b>(39,446)</b>	39,446	<b>0</b>
Transfers to/(from) other reserves	(2,548)	2,214	0	334	<b>0</b>	0	<b>0</b>
<b>Net Decrease / (increase) in year</b>	<b>2,504</b>	<b>2,214</b>	<b>(68)</b>	<b>82</b>	<b>4,732</b>	<b>98,789</b>	<b>103,521</b>
<b>Balance at 31st March 2020 carried forward</b>	<b>(9,400)</b>	<b>(19,311)</b>	<b>(145)</b>	<b>(13,078)</b>	<b>(41,934)</b>	<b>53,283</b>	<b>11,349</b>

## Core Statements - Comprehensive Income and Expenditure Statement

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

### Comprehensive Income and Expenditure Statement for the Year Ended 31 March 2021

2019/20 Restated					2020/21		
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
39,237	(14,069)	25,168	Regeneration		17,672	(11,877)	5,795
15,450	(19,606)	(4,156)	Public Health and Public Protection		18,313	(26,097)	(7,784)
73,330	(68,522)	4,808	Education and Partnerships		83,717	(79,831)	3,886
45,007	(1,921)	43,086	Children's Care		50,682	(5,022)	45,660
85,217	(43,193)	42,024	Adult Social Care and Health Integration		96,239	(56,889)	39,350
48,750	(5,110)	43,640	Environment and Community Services		52,019	(8,564)	43,455
73,211	(62,423)	10,788	Finance		76,557	(64,267)	12,290
16,622	(2,825)	13,797	Legal & Governance Services		18,148	(4,474)	13,674
1,094	(10,070)	(8,976)	Central Costs		473	(5,989)	(5,516)
0	0	0	Covid-19 Overspend		0	416	416
<b>397,918</b>	<b>(227,739)</b>	<b>170,179</b>	<b>Total Cost of Service</b>		<b>413,820</b>	<b>(262,594)</b>	<b>151,226</b>
2,192	(1,232)	960	Other Operating Income and Expenditure	9	6,639	(6,224)	415
37,822	(30,098)	7,724	Financing & Investment Activities	10	37,191	(27,210)	9,981
0	(134,685)	(134,685)	Taxation and Non Specific Grant Income	11	0	(127,559)	(127,559)
<b>437,932</b>	<b>(393,754)</b>	<b>44,178</b>	<b>(Surplus) or Deficit on Provision of Services</b>		<b>457,650</b>	<b>(423,587)</b>	<b>34,063</b>
			<i>Items not re-classified to the Surplus or Deficit on the Provision of Service</i>				
		(2,740)	(Surplus) on revaluation of Property Plant and Equipment	23 & 24			(641)
		66,655	Actuarial (Gains)/Losses on Pension Fund	38			10,265
		(4,572)	Depreciation written out to the Revaluation reserve	23			(4,166)
		<b>59,343</b>	<b>Other Comprehensive Income and Expenditure</b>				<b>5,458</b>
		<b>103,521</b>	<b>Total Comprehensive Income and Expenditure</b>				<b>39,521</b>

Note: In June 2020 there was a management restructure within the Council. The reporting levels above reflect the new directorate format but given this is different to last year's accounts the 2019/20 comparator figures have been restated.

## 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-Mar-20		Note	31-Mar-21
£000			£000
400,052	Property, Plant & Equipment	23/24	396,851
27,563	Heritage Assets	25	32,443
15,904	Investment Properties	26	25,536
2,982	Intangible Assets	27	1,873
309	Long Term Investments	29	309
10,003	Long Term Debtors	32	9,860
<b>456,813</b>	<b>Total Long Term Assets</b>		<b>466,872</b>
22,000	Short Term Investments	29	0
5,476	Short Term Assets Held for Sale	28	2,297
2,425	Inventories	33	2,313
45,411	Short Term Debtors	32	47,971
22,245	Cash and Cash Equivalents	34	24,810
<b>97,557</b>	<b>Total Current Assets</b>		<b>77,391</b>
(55,247)	Short Term Borrowing	29	(32,089)
(43,392)	Short Term Creditors	35	(58,305)
(1,526)	Short Term Provisions	36	(1,528)
<b>(100,165)</b>	<b>Total Current Liabilities</b>		<b>(91,922)</b>
<b>(2,608)</b>	<b>Net Current Assets / (Liabilities)</b>		<b>(14,531)</b>
(981)	Long Term Provisions	36	(1,028)
(179,423)	Long Term Borrowing	29	(186,667)
(1,589)	Other Long Term Liabilities	29	(1,450)
(283,561)	Pension Liability	38	(314,066)
<b>(465,554)</b>	<b>Total Long Term Liabilities</b>		<b>(503,211)</b>
<b>(11,349)</b>	<b>Net Assets/(Liabilities)</b>		<b>(50,870)</b>
(44,717)	Usable Reserves	37	(56,770)
56,066	Unusable Reserves	38	107,640
<b>11,349</b>	<b>Total Reserves</b>		<b>50,870</b>

## Core Statements - Cash Flow Statement

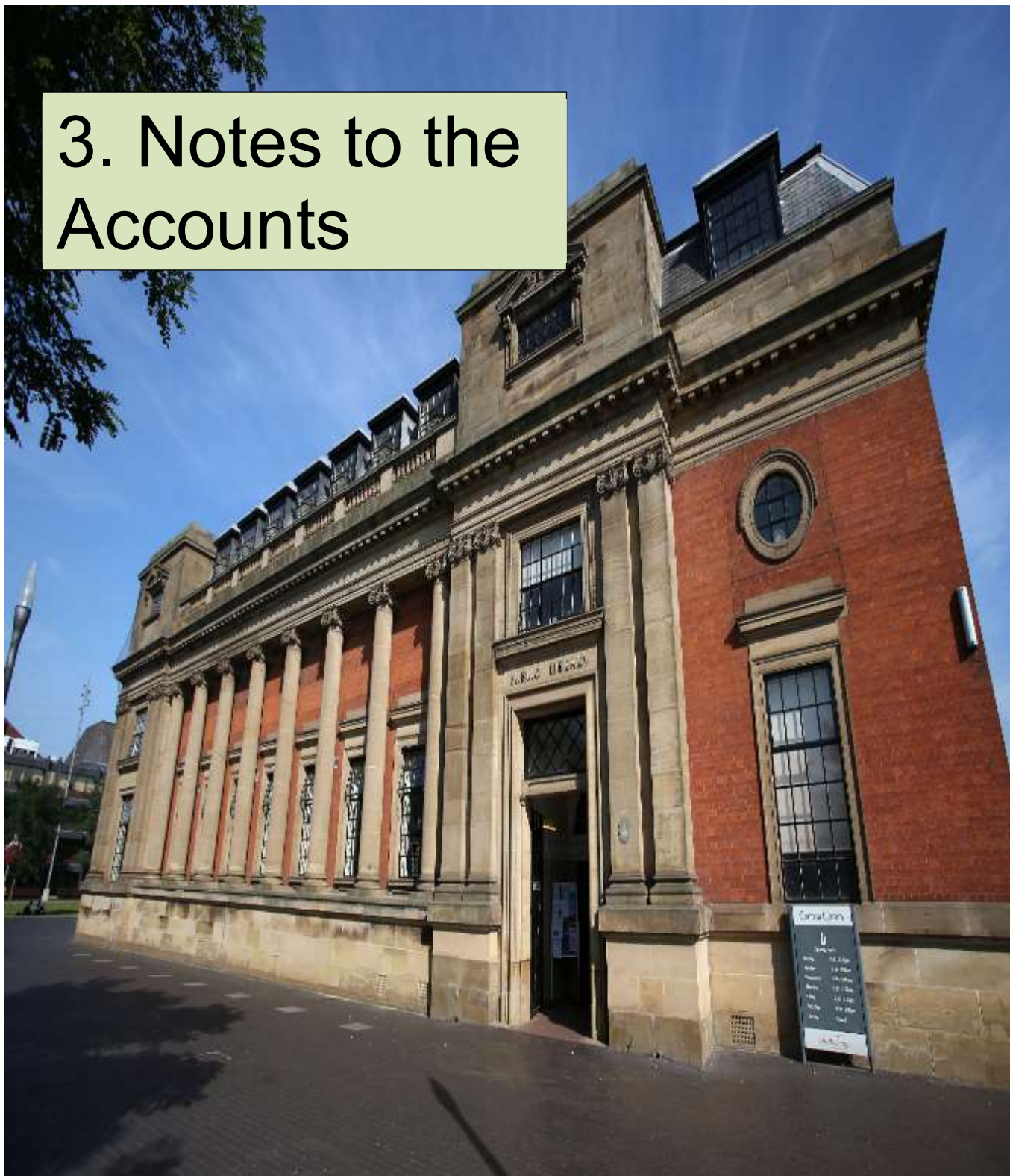
This Statement shows the changes in cash and cash equivalents held by the Council during the financial year. It shows how the Council generates and uses cash and cash equivalents by classifying cash flows into operating, investing and financing activities. It is an integral part of the Comprehensive Income and Expenditure Statement and the Balance Sheet for the Council.

Year to 31 March 2019 £000		Note	Year to 31 March 2020 £000
(44,178)	<b>(Deficit) on provision of services transferred to the General Fund</b>		<b>(34,063)</b>
	<b>Adjustment for items not affecting cash flow</b>		
15,163	Depreciation of Property Plant and Equipment (PPE)	23	19,368
2,150	Amortisation of Intangible Assets	27	2,159
17,308	Impairments to PPE	23	3,317
0	Impairments to Assets Held for Sale	28	0
(418)	Fair Value gain on Investment Properties	26	(41)
(244)	Donated PPE and Heritage Assets	23,25	(823)
2,051	Net Book Value on Disposal of Non-current Assets	23,25,27	7,715
12,437	Difference between Current Service Cost and Contributions made to the Pension Scheme	39	13,367
5,094	Net of Interest changes applied to the Pension Scheme Deficit	39	6,874
(81)	Movement in Provisions	36	49
<b>9,282</b>	<b>Surplus on provision of services after non cash adjustments</b>		<b>17,922</b>
(1,232)	Adjustments for items that are Financing or Investing Activities		(6,224)
	<b>Other operating cash flows</b>		
7,939	Cash absorbed by the reduction in Creditors	35	16,115
(5,661)	Cash absorbed by the increase in Debtors	32	(2,418)
(109)	Cash absorbed by the increase in Inventories	33	112
<b>10,219</b>	<b>Net cash flow from Operating Activities</b>		<b>25,507</b>
(62,781)	Investing Activities	46	(7,024)
71,979	Financing Activities	46	(15,918)
<b>19,417</b>	<b>Net increase/(decrease) in Cash and Cash Equivalents</b>		<b>2,565</b>
2,828	Cash and Cash Equivalents at the start of the period	34	22,245
<b>22,245</b>	<b>Cash and Cash Equivalents at the end of the period</b>	<b>34</b>	<b>24,810</b>

The cash flow for Operating Activities includes the following:-

(632)	Interest received	(273)
6,127	Interest paid	6,473

# 3. Notes to the Accounts



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## Notes to the Accounts

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# Notes to the Accounts

## Note 1 Accounting Policies

### Basis of Accounting

The Statement of Accounts summarises the Council's financial transactions for the 2020/21 financial year and its position at the 31 March 2021.

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 2020/21 saw a continuing pandemic which is likely to be with us in some form for years to come. However, the UK vaccinations programme has been a major success. As a result, there is an expectation that life may return to some type of normality during the latter part of 2021. Most Council services are now operating at relatively normal levels. However, services such as leisure (provided by SLM, the Council's external provider of leisure facilities) and culture are still affected and it is unknown what demand led services within social care may look like in the future. Car parking income and the impact on the retail sector of the town is still a cause for concern. There is also concern regarding income to the Council in the form of Business Rates and Council Tax income.

The financial impact on the Council arising from additional costs and lost income was significant during 2020/21 and is likely to continue to be significant during 2021/22. The Council has carried out a detailed assessment of the likely impact of the pandemic on its financial position and performance during the current year and is currently examining the potential ongoing effect in 2021/22 and future years. This is an essential part of the refresh of the Council's Medium Term Financial Plan which is currently taking place.

This includes 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 that sit alongside this.
- The impact on the Council's investment strategy, e.g. delays caused by ongoing restrictions, supplier availability, whether there is a need to reschedule work for other reasons and the re-prioritisation of the earmarked reserve for future capital plans to support the Council's covid recovery.
- 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 during 2020/21 by central government to support individual local authorities' financial position due to the pandemic:

- In March 2020, the Council received £5.2m being its share of Covid-19 general support grant specifically to support local authorities with the additional costs and lost income and unachieved savings due to the pandemic. All this funding was used in the early part of the 2020/21 financial year.
- A second tranche of the Covid -19 general 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.

The Sales Fees and Charges (SFC) Scheme which part funds income shortfalls above a 5% deductible and 75p in the £ thereafter has also been a significant buffer in terms of limiting real losses to the Council. A total of £4.4m has been claimed under this scheme and this is additional to the main Covid-19 general support grant funding. A number of earmarked grants have also been received during 2020/21 mainly Test, Track and Trace, Contain Outbreak Management Fund and Clinically Extremely Vulnerable for specific costs.

The total impact of Covid-19 on the General Fund (after all government funding and other offsets) was a cost pressure of £0.4m in 2020/21, which will be funded from an earmarked Covid-19 recovery reserve which was created during 2020/21. By way of context the Council's General Fund Reserve balance as at 31st March 2021 was £10.5m, this is above the minimum level for 2020/21 advised by the Chief Finance Officer of £9.4m.

Central government will continue to fund local authorities during the first quarter of 2021/22. The main Covid-19 general support grant has been confirmed at £5.3m with an expected £1.1m to be received from the SFC scheme. As at 30<sup>th</sup> June 2021, the cost to the Council of Covid-19 in 2021/22 is forecast to be £7.7m or £1.3m above the funding expected. This excess can be covered from the Covid recovery reserve without impacting on general reserves. These costs are based on no further lockdowns or restrictions during the remainder of the financial year and will be subject to change as further information is received as to the Government's plans for the country leaving lockdown.

The Government has also provided a further £1.4m of Contain Outbreak Management Funding for 2021/22, which will be fully utilised by the Council.

The above estimates of the impact of the pandemic on the Council's finances are based on actual costs incurred to date in 2021/22 and estimates of costs/losses that have not yet happened. Areas such as council tax & business rates collection and income reductions are volatile and could become worse than forecast above. If this is the case, the Council has the ability to borrow from government or other local authorities to maintain liquidity and can use additional earmarked reserves to manage any deteriorating financial position. We also expect that any major Covid-19 related costs beyond 31<sup>st</sup> March 2022 will be funded by central government.

The Council has recently undertaken a review of the CIPFA Financial Resilience Index and compared its position against the other eleven North East local authorities plus against our CIPFA statistical family group. The conclusion is that the financial position at present is stable and well managed. The areas to concentrate on going forwards are reducing demand on children's care, increasing the housing supply in the area to maximise council tax receipts, and to grow our level of reserves going forwards. These elements will be key facets of the Council's approach over the Medium Term Financial Planning period.

For these reasons, the Council does not consider that there is material uncertainty in respect of its ability to continue as a going concern until at least 31<sup>st</sup> March 2023.

## **Accounting Developments and Changes in the Year**

### **Changes to the Core Statements**

In 2020/21 the following standard has been adopted into the Local Authority Code of Accounting Practice:

- IAS 19 Employee Benefits re the remeasurement of the net pensions 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 changes to the plan.

Due to an internal management restructure during June 2020, 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 2019/20 to reflect the new structure.

Any negative dedicated school grants amounts have been reclassified from usable reserves to unusable reserves to reflect changes in legislation in relation to what amounts can be charged to the general fund.

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:

The implementation of IFRS 16 in relation to Leases has been deferred until the 2022/23 financial year. CIPFA has taken this decision in response to pressures on council finance teams as a result of the COVID-19 pandemic.

Standards that have been issued but not yet adopted by the CIPFA Code of Practice include:

- Definition of a Business: Amendments to IFRS 3 Business Combinations
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
- Interest Rate Benchmark Reform: (Phase 2): Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

The potential impact on the Statement of Accounts will be assessed when the accounting standards are implemented, however these are not expected to have a material impact on the Council's financial statements.

## **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 and are on a 5 year rolling cycle.

### **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 gives 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. These deposits should not have a term of more than three months in total. 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 financial obligation and these 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 one major interest in terms of companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities. This relates to Middlesbrough Development Company, a wholly owned subsidiary by the Council which is involved in housing growth. Further details on the objectives of MDC and its relationship with the Council are set out in the narrative report. However, these interests are immaterial in financial terms for 2020/21 and the Council has decided not to prepare group accounts as a result.

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 authorised for issue by the Director of Finance are not reflected in the Statement of Accounts.

## Note 4 Critical Judgements in applying Accounting Policies

### Sensitivities, Accounting Estimates and Critical Judgements

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

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

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

Type of School	No of Primary Schools	No of Secondary Schools	No of Special Schools	Total
Community	4	0	3	7
Voluntary Aided (VA)	0	0	0	0
Foundation	5	0	0	5
<b>Maintained</b>	<b>9</b>	<b>0</b>	<b>3</b>	<b>12</b>
Academies (not under the control of LA)	32	8	2	42
<b>Total</b>	<b>41</b>	<b>8</b>	<b>5</b>	<b>54</b>

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

#### Valuation of Operational Property

Asset valuations are based on market prices and are periodically reviewed to ensure that the Council does not materially misstate its non-current assets. The Council's external valuers, Align Property Partners, have provided valuations as at 31 March 2021 for approximately 20% of its operational portfolio in line with the CIPFA Code of Practice requirements. The remaining balance of operational properties not revalued has also reviewed at a high level to these figures continue to reliable. Further details as to the total revaluations undertaken following this 5-year rolling revaluation cycle are given in Note 24.

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

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 Council however remains comfortable, following discussions with its external valuers, that the asset valuations provided as at 31<sup>st</sup> March 2021 and in previous years, are the most reliable source of information available to base asset values on for the current set of financial statements.

#### 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.

## 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 31<sup>st</sup> March 2021 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.

## Group Financial Statements

The 2020/21 Local Authority Code of Practice requires all Councils 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.

MDC is a subsidiary company (limited by share capital) which was created by the Council in February 2019 to influence housing supply and regeneration within the Town. All projects undertaken by MDC will be financed by either government funding or through loan funding obtained from the Council. Since 2019 the Council has contributed to the company £1.565m as part of the funding for its first two projects. As this value is immaterial, group accounts have not been prepared for the 2020/21 financial year.

Due to decisions already made by the Council during 2020 & 2021 to date, it is expected that MDC’s operations will have a significant impact on its finances (around £29m) and that group financial statements will need to be prepared for future years.

## **Note 5      Events after the Balance Sheet Date**

There are no events at the authorised for issue date (20 July 2021) that affect any of the values in either the Financial Statements for the Council for 2020/21 or in the Notes to the Accounts.

## Notes Supporting the Movement in Reserves Statement

### Note 6 Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are 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.

2020/21	General Fund Balance	Capital Receipts Reserve	Revenue Unapplied	Capital Grants Unapplied	Movement in Usable Reserves
	£000	£000	£000	£000	£000
<b>Adjustments involving the Capital Adjustment Account:</b>					
<b>With the Comprehensive Income and Expenditure Statement</b>					
Impairment and depreciation to Property, Plant and Equipment (Note 23)	(19,369)	0	0	0	(19,369)
Revaluation Losses on Property, Plant and Equipment (Note 24,23)	(3,454)	0	0	0	(3,454)
Revaluation of Investment Properties and Assets for Sale (Note 26,28)	41	0	0	0	41
Amortisation of Intangible Assets (Note 27)	(2,159)	0	0	0	(2,159)
Transfer between Capital grants Unapplied and General Fund	0	0	0	0	0
Total Capital Grants (Note 11)	7,392	0	0	0	7,392
Capital Grants and Contributions Unapplied credited to the Comprehensive Income and Expenditure	0	0	0	5,148	5,148
Donated Assets (Note 23,25)	1,075	0	0	0	1,075
Revenue Expenditure Funded from Capital Under Statute (REFCUS) – Expenditure	(7,888)	0	0	0	(7,888)
Revenue Expenditure Funded from Capital Under Statute (REFCUS) – Grant Receivable	4,931	0	0	0	4,931
Non-current assets written off on disposal or sale (Note 23,27)	(8,770)	0	0	0	(8,770)
<b>Total with the Comprehensive Income and Expenditure Statement</b>	<b>(28,201)</b>	<b>0</b>	<b>0</b>	<b>5,148</b>	<b>(23,053)</b>
<b>Amounts arising elsewhere</b>					
Statutory provision for the financing of capital investment (Note 21)	4,743	0	0	0	4,743
Capital Receipts Reserve used to finance new capital spend (Note 21)	0	6,374	0	0	6,374
Capital expenditure charged against the General Fund (Note 21)	58	0	(51)	0	7
<b>Total Amounts arising elsewhere</b>	<b>4,801</b>	<b>6,374</b>	<b>(51)</b>	<b>0</b>	<b>11,124</b>

<b>Total Amounts involving the Capital Adjustment Account</b>	<b>(23,400)</b>	<b>6,374</b>	<b>(51)</b>	<b>5,148</b>	<b>(11,929)</b>
<b>Amounts involving Deferred Capital Receipt Reserve</b>					
Transfer on receipt of cash	0	0	0	0	0
<b>Amounts involving the Pension Reserve</b>					
Reversal of Pension items in the Comprehensive Income and Expenditure Statement Note 39)	(30,908)	0	0	0	(30,908)
Employer's pension contribution payable in year (Note 39)	10,669	0	0	0	10,669
Difference in Collection Fund income credited to the Comprehensive Income and Expenditure Statement and that under statutory requirements (Note 38)	(13,640)	0	0	0	(13,640)
<b>Amounts with the Compensated Absences Adjustment Account</b>					
Reversal of Accrual made at previous year end (Note 38)	896	0	0	0	896
Creation of accrual for current year end (Note 38)	(695)	0	0	0	(695)
<b>Amounts between Usable Reserves</b>					
Cash proceeds on disposal of Non-Current Assets	6,224	(6,224)	0	0	0
<b>Total Adjustments for the year ended 31 March 2021</b>	<b>(50,854)</b>	<b>150</b>	<b>(51)</b>	<b>5,148</b>	<b>(45,607)</b>

2019/20	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Usable Reserves
	£000	£000	£000	£000
<b>Adjustments involving the Capital Adjustment Account:</b>				
<b>With the Comprehensive Income and Expenditure Statement</b>				
Impairment and depreciation to Property, Plant and Equipment (Note 23)	(15,163)	0	0	(15,163)
Revaluation Losses on Property, Plant and Equipment (Note 24,23)	(17,308)	0	0	(17,308)
Revaluation of Investment Properties and Assets for Sale (Note 26,28)	418	0	0	418
Amortisation of Intangible Assets (Note 27)	(2,150)	0	0	(2,150)
Total Capital Grants (Note 11)	0	0	0	0
Capital Grants and Contributions Unapplied credited to the Comprehensive Income and Expenditure	16,685	0	(567)	16,118
Donated Assets (Note 23,25)	0	0	0	0
Revenue Expenditure Funded from Capital Under Statute (REFCUS) – Expenditure	244	0	0	244
Revenue Expenditure Funded from Capital Under Statute (REFCUS) – Grant Receivable	(8,183)	0	0	(8,183)
Non-current assets written off on disposal or sale (Note 23,27)	1,427	0	315	1,742
<b>Total with the Comprehensive Income and Expenditure Statement</b>	(2,052)	0	0	(2,052)
<b>Amounts arising elsewhere</b>	<b>(26,082)</b>	<b>0</b>	<b>(252)</b>	<b>(26,334)</b>
Statutory provision for the financing of capital investment (Note 21)				
Capital Receipts Reserve used to finance new capital spend (Note 21)	3,440	0	0	3,440
Capital expenditure charged against the General Fund (Note 21)	0	1,165	0	1,165
Application of grants to capital financing transferred to the Capital Adjustment Account	7	0	0	7
<b>Total Amounts arising elsewhere</b>	<b>3,447</b>	<b>1,165</b>	<b>0</b>	<b>4,612</b>
<b>Total Amounts involving the Capital Adjustment Account</b>	<b>(22,635)</b>	<b>1,165</b>	<b>(252)</b>	<b>(21,722)</b>
<b>Amounts involving Deferred Capital Receipt Reserve</b>				
Transfer on receipt of cash	0	0	0	0
<b>Amounts involving the Pension Reserve</b>				
Reversal of Pension items in the Comprehensive Income and Expenditure Statement Note 38)	(30,168)	0	0	(30,168)
Employer's pension contribution payable in year (Note 38)	12,637	0	0	12,637
Difference in Collection Fund income credited to the Comprehensive Income and Expenditure Statement and that under statutory requirements (Note 38)	(377)	0	0	(377)
<b>Amounts with the Compensated Absences Adjustment Account</b>				
Reversal of Accrual made at previous year end (Note 38)	1081	0	0	1081
Creation of accrual for current year end (Note 38)	(896)	0	0	(896)
<b>Amounts between Usable Reserves</b>				
Cash proceeds on disposal of Non-Current Assets	1,232	(1,232)	0	0
<b>Total Adjustments for the year ended 31 March 2020</b>	<b>(39,126)</b>	<b>(67)</b>	<b>(252)</b>	<b>(39,445)</b>

## Note 7 Earmarked Reserves

	Amounts Transferred		Balance at 31 March 2021 £000	
	Balance at 1 April 2020	From General Fund		To General Fund
	£000	£000		£000
<b>Schools Balances</b>	(3,240)	(4,864)	3,241	(4,863)
<b>Significant Revenue Reserves</b>				
Invest to Save / Change Programme	(415)	(1,321)	1,291	(445)
Revenue Grants Unapplied	(9,936)	(11,151)	9,989	(11,098)
Insurance Fund	(360)	(276)	330	(306)
Schools Reserves	(717)	(774)	1,491	0
Capital Re-Financing Reserve	(175)	0	0	(175)
Public Health Reserve	0	(438)	0	(438)
Business Rates Reserve	(1,671)	(10,555)	0	(12,226)
Investment Fund Reserve	(4,928)	0	4,928	0
Covid Recovery Reserve	0	(4,928)	416	(4,512)
Children's Care Demand Reserve	0	(732)	0	(732)
<b>Total Specific Reserves</b>	<b>(18,202)</b>	<b>(30,175)</b>	<b>18,445</b>	<b>(29,932)</b>
Other Revenue Reserves	(651)	(2,935)	86	(3,500)
<b>Total Earmarked Reserves</b>	<b>(22,093)</b>	<b>(37,974)</b>	<b>21,772</b>	<b>(38,295)</b>

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

### Schools Balances

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

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

**Revenue Grants Unapplied** – In situations where there are no grant conditions or that conditions have already been met, any unspent grants/contributions are transferred to the Revenue Grants Unapplied at year-end. These have been recognised as income in prior years in the Comprehensive Income & Expenditure Statement.

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

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

**Public Health** – savings achieved in 2020/21 due to the pandemic. Mainly due to less demand on core services. The transfer to reserves will give greater capacity in managing unexpected costs in future years.

**Business Rates** - 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. It also includes fSection 31 grant, which is payable in advance and offsets losses incurred in 2020/21 due to the pandemic on NNDR. This will be spread over the next three years to offset losses on the collection fund account.

**Investment Fund Reserve** - To be used to finance future capital investment opportunities. A policy decision was made by full Council to move this to the Covid Recovery reserve during 2020/21.

**Covid Recovery Reserve** – To assist with the future costs and income losses as a result of the Covid-19 pandemic once government funding stops.

# Notes Supporting the Comprehensive Income and Expenditure Statement

## Note 8 Expenditure and Funding Analysis

### 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.

#### Expenditure and Funding Analysis

2019/20 Restated				2020/21		
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
4,505	20,663	<b>25,168</b>	Regeneration	2,416	3,379	<b>5,795</b>
(1,373)	(2,782)	<b>(4,155)</b>	Public Health and Public Protection	(3,067)	(4,717)	<b>(7,784)</b>
2,150	2,658	<b>4,808</b>	Education & Partnerships	1,784	2,102	<b>3,886</b>
40,466	2,620	<b>43,086</b>	Children's Care	42,480	3,180	<b>45,660</b>
37,833	4,192	<b>42,025</b>	Adult Social Care & Health Integration	37,425	1,925	<b>39,350</b>
21,033	22,607	<b>43,640</b>	Environment & Community Services	18,329	25,126	<b>43,455</b>
5,404	5,384	<b>10,788</b>	Finance	1,109	11,181	<b>12,290</b>
9,896	3,900	<b>13,796</b>	Legal & Governance Services	8,631	5,043	<b>13,674</b>
(1,393)	(7,584)	<b>(8,977)</b>	Central Costs	6,937	(12,454)	<b>(5,517)</b>
0	0	0	Covid-19 Overspend	416	0	416
<b>118,521</b>	<b>51,658</b>	<b>170,179</b>	<b>Net Cost of Service</b>	<b>116,460</b>	<b>34,765</b>	<b>151,225</b>
(111,927)	(14,074)	<b>(126,001)</b>	Other Income and Expenditure	(116,397)	(765)	<b>(117,162)</b>
<b>6,594</b>	<b>37,584</b>	<b>44,178</b>	<b>Surplus or Deficit on Provision of Services</b>	<b>63</b>	<b>34,000</b>	<b>34,063</b>
		<b>11,904</b>	<b>Opening Uncommitted General Fund Balance</b>	<b>9,400</b>		
		(6,594)	Surplus or (Deficit) on General Fund Balance in year	<b>(63)</b>		
		4,090	Contribution/(use) in year	<b>1,163</b>		
		<b>9,400</b>	<b>Closing Uncommitted General Fund Balance</b>	<b>10,500</b>		



<b>Adjustments between Funding and Accounting Basis</b>				
<b>2020/21</b>				
<b>Adjustments from General Fund to Comprehensive Income and Expenditure Statement amounts:</b>	<b>Adjustments for Capital Purposes</b>	<b>Net Change for the Pensions Adjustments</b>	<b>Other Differences</b>	<b>Total Adjustments</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Regeneration	5,498	842	(2,961)	3,379
Public Health and Public Protection	36	763	(5,517)	(4,718)
Education & Partnerships	704	2,668	(1,270)	2,102
Children's Care	190	2,594	396	3,180
Adult Social Care and Health Integration	(467)	2,245	147	1,925
Environment & Community Services	18,882	3,108	3,136	25,126
Finance	904	1,688	8,590	11,182
Legal & Governance Services	3,414	1,328	301	5,043
Central Costs	0	(1,293)	(11,161)	(12,454)
Covid-19 Overspend	0	0	0	0
<b>Net Cost of Services</b>	<b>29,162</b>	<b>13,942</b>	<b>(8,338)</b>	<b>34,765</b>
<b>Other Income and Expenditure from the Expenditure and Funding Analysis</b>	<b>(7,185)</b>	<b>6,298</b>	<b>122</b>	<b>(765)</b>
<b>Difference between General Fund Surplus/ Deficit and Comprehensive Income and Expenditure Statement Surplus/Deficit on the Provision of Services</b>	<b>21,976</b>	<b>20,241</b>	<b>(8,217)</b>	<b>34,000</b>

<b>Adjustments between Funding and Accounting Basis</b>				
<b>Restated 2019/20</b>				
<b>Adjustments from General Fund to Comprehensive Income and Expenditure Statement amounts:</b>	<b>Adjustments for Capital Purposes</b>	<b>Net Change for the Pensions Adjustments</b>	<b>Other Differences</b>	<b>Total Adjustments</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Regeneration	18,720	2,133	(190)	20,663
Public Health and Public Protection	292	700	(3,774)	(2,782)
Education & Partnerships	1,894	1,607	(843)	2,658
Children's Care	108	1,920	592	2,620
Adult Social Care and Health Integration	1,322	2,211	659	4,192
Environment & Community Services	15,781	3,003	3,823	22,607
Finance	376	2,020	2,988	5,384
Legal & Governance Services	2,885	636	379	3,900
Central Costs	0	(1,331)	-6,253	(7,584)
<b>Net Cost of Services</b>	<b>41,378</b>	<b>12,899</b>	<b>(2,619)</b>	<b>51,658</b>
<b>Other Income and Expenditure from the Expenditure and Funding Analysis</b>	<b>(16,528)</b>	<b>4,635</b>	<b>(2,181)</b>	<b>(14,074)</b>
<b>Difference between General Fund Surplus/Deficit and Comprehensive Income and Expenditure Statement Surplus/Deficit on the Provision of Services</b>	<b>24,850</b>	<b>17,534</b>	<b>(4,800)</b>	<b>37,584</b>

## Expenditure & Funding - Analysis by Nature

The Council's income and expenditure is analysed as follows in terms of type of expenditure:

	2019/20 £000	2020/21 £000
<b>Expenditure</b>		
Employees	149,189	148,517
Other Service Expenditure	238,053	261,026
Depreciation and other Capital Charges	44,423	41,488
Interest Payments	6,127	6,473
Precepts and Levies	140	146
<b>Total Expenditure</b>	<b>437,932</b>	<b>457,650</b>
<b>Income</b>		
Government Grants and Contributions	(249,735)	(284,285)
Income from Council Tax and Non Domestic Rates	(72,729)	(63,172)
Interest and Investment Income	(633)	(274)
Fees, Charges and Other Service Income	(70,657)	(75,856)
<b>Total Income</b>	<b>(393,754)</b>	<b>(423,587)</b>
<b>Deficit on the Provision of Services</b>	<b>44,178</b>	<b>34,063</b>

## Note 9 Other Operating Income and Expenditure

2019/20		2020/21
£000		£000
140	Levies & Parish Council Precepts	146
820	Losses on the disposal of non-current assets	269
<b>960</b>	<b>Total</b>	<b>415</b>

## Note 10 Financing and Investment Activities

2019/20		2020/21
£000		£000
6,128	Interest payable and similar charges	6,473
9,275	Trading Services Activities (Note 15)	8,369
(418)	Charges in relation to Investment Property and changes in their fair value (Note 25)	1,013
22,836	Pension Interest Cost (Note 38)	21,336
<b>37,821</b>	<b>Total Expenditure</b>	<b>37,191</b>
(18,203)	Expected return on Pensions Assets (Note 38)	(15,038)
(632)	Interest receivable and similar income	(274)
(11,262)	Trading Services Activity (Note 15)	(11,898)
<b>(30,097)</b>	<b>Total Income</b>	<b>(27,271)</b>
<b>7,724</b>	<b>Total</b>	<b>9,981</b>

## Note 11 Taxation and Non-Specific Grant Income

2019/20		2020/21
£000		£000
(55,483)	Council Tax Income	(56,419)
(17,246)	Business Rates Income	(6,751)
(45,027)	Non ring-fenced government grant (Note 11)	(55,919)
(244)	Value of Donated Property, Plant and Equipment Assets (Note 20)	(1,074)
(16,685)	Capital Grants/Contributions (Note 11)	(7,396)
<b>(134,685)</b>	<b>Total</b>	<b>(127,559)</b>

## Note 12 Grant Income

The following grants, contributions and donations were credited to the Comprehensive Income and Expenditure Statement in 2020/21.

### Revenue Grants Credited to Taxation and Non Specific Grant Income

2019/20		2020/21
£000		£000
(11,959)	Revenue Support	(12,153)
(26,861)	Business Rates Top-up	(27,299)
(1,972)	New Homes Bonus	(1,332)
(4,055)	Business Rates Section 31	(14,847)
(180)	Enterprise Zone Funding	(157)
0	Renewable Energy	(131)
<b>(45,027)</b>	<b>Total (note 11)</b>	<b>(55,919)</b>
	<b>Department for Education (DfE)</b>	
(48,483)	Dedicated Schools Grant	(50,646)
(3,722)	Pupil Premium	(3,712)
(114)	Education Services	0
(1,332)	Education and Skills Funding Agency	(661)
(0)	Staying Put Agency	(748)
(0)	Universal Infant Free School Meals	(384)
(260)	High Needs Sixth Form Funding	0
(575)	Supporting & Strengthening Families	(739)
(243)	PE & Sport	(89)
(1,341)	Other DfE grants	(1,189)
	<b>Ministry of Housing, Communities and Local Government (MHCLG)</b>	
(1,828)	Independent Living	(1,828)
(1,295)	Adult Social Care Grant	(4,817)
(7,634)	Improved Better Care Fund	(8,392)
(1,005)	Troubled Families	(802)
(568)	Winter Pressures	0
(0)	Migration Fund	(60)
(5,200)	COVID19	(17,827)
(2,495)	Other MHCLG grants	(2,067)
	<b>Home Office</b>	
(803)	Youth Justice Good Practice Grant	(823)
(166)	Other Home Office	(276)
	<b>Department for Business, Energy and Industrial Strategy (BEIS)</b>	
(0)	BEIS grants	(59)
	<b>Department for Digital, Culture, Media and Sport (DCMS)</b>	
(553)	DCMS grants	(645)
	<b>Department for Work and Pensions (DWP)</b>	
(56,970)	Housing Benefit Subsidy	(53,153)
(723)	Housing Benefit Admin	(633)
(1,081)	Other DHSC Grants	(1,223)
	<b>Department of Health and Social Care (DHSC)</b>	
(16,387)	Public Health	(17,629)
0	COVID 19	(10,526)
(166)	Other DHSC grants	(313)
	<b>Department for Environment, Food and Rural Affairs (DEFRA)</b>	
(108)	DEFRA grants	(8)
	<b>Department for Transport (DfT)</b>	

(121)	DfT grants	(44)
	<b>Lottery Grants</b>	
(40)	Other Lottery Grants	0
	<b>Cabinet Office</b>	
(727)	Elections	17
(104)	<b>Other Grants</b>	(416)
	<b>Other Contributions</b>	
(20,954)	South Tees Clinical Commissioning Group	0
(227)	Tees, Esk and Wear Valleys NHS Foundation Trust	(106)
(814)	South Tees Hospitals NHS Foundation Trust	(273)
0	Tees Valley Clinical Commissioning Group	(27,571)
(2,071)	Redcar and Cleveland Borough Council	(1,744)
(1,772)	Stockton-on-Tees Borough Council	(1,320)
(938)	Hartlepool Borough Council	(986)
0	Darlington Borough Council	(59)
(2,254)	Tees Valley Combined Authority	(3,480)
(122)	Police and Crime Commissioner	(202)
(3,400)	Other Contributions	(610)
<b>(186,596)</b>	<b>Total Revenue Grants Credited to Services</b>	<b>(216,043)</b>
<b>(231,623)</b>	<b>TOTAL REVENUE GRANTS</b>	<b>(271,962)</b>
	<b>Capital Grants</b>	
	<b>Department for Education (DfE)</b>	
(147)	School Condition Allocation	(712)
(1,280)	Basic Need	0
(732)	Other DfE grants	(1,193)
	<b>Ministry of Housing, Communities and Local Government (MHCLG)</b>	
(1,999)	Disabled Facility	(2,268)
	<b>Department of Health and Social Care (DHSC)</b>	
(198)	Other DHSC grants	0
	<b>Department for Transport (DfT)</b>	
(2,840)	Local transport Plan	(4,241)
(0)	Joint Air Quality Unit Early Measures Funding	0
(2,746)	Other DfT Grants	0
	<b>Tees Valley Combined Authority</b>	
(4,671)	Other TVCA Grants	(3,042)
(1,747)	<b>Other Grants</b>	(78)
	<b>Other Contributions</b>	
(709)	Housing Development	(60)
(1,043)	Other Contributions	(729)
<b>(18,112)</b>	<b>Total Capital Grants</b>	<b>(12,323)</b>
<b>(249,735)</b>	<b>TOTAL GRANTS 2020/21</b>	<b>(284,285)</b>

Memo:

Capital grants recognised through CIES

(1,427)	Amount Applied Directly to Services	(4,927)
(16,685)	Amount recognised as Taxation and Non Specific Income – Note 10	(7,396)
<b>(18,112)</b>	<b>Total Capital Grants</b>	<b>(12,323)</b>

## Note 13 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 2020/21 is set out below:

	Central Expenditure	Individual Schools Budget	Total
	£000	£000	£000
Final DSG for 2020/21 before Academy recoupment			(147,393)
Academy figure recouped for 2020/21			96,873
<b>Total DSG after Academy recoupment for 2020/21</b>			<b>(50,520)</b>
Plus : Brought forward from 2019/20			<b>2,783</b>
Less : Carry Forward to 2021/22 agreed in advance			
<b>Agreed initial budgeted distribution for 2020/21</b>	<b>(16,264)</b>	<b>(31,473)</b>	<b>(47,737)</b>
In year adjustments	0	0	0
<b>Final budgeted distribution for 2020/21</b>	<b>(16,264)</b>	<b>(31,473)</b>	<b>(47,737)</b>
Less : Actual central expenditure	16,084	0	16,084
Less : Actual ISB deployed to schools	0	34,944	34,944
<b>Balance Carried Forward</b>	<b>(180)</b>	<b>3,471</b>	<b>3,291</b>

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

It should be noted that any negative DSG balances are classified as unusable reserves from 2020/21 for a 3-year period.

## Note 14 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).

2020/21	Salary (including fees and allowances)	Pension contributions paid for by the Council	Strain to the Pension Fund	Total including pensions contribution
	£	£	£	£
Chief Executive – Tony Parkinson	152,670	17,557	0	<b>170,227</b>
Strategic Director of Finance, Governance and Support/Section 151 Officer (left June 2020)	22,632	2,603	0	<b>25,235</b>
Director of Finance (started June 2020)	65,788	7,543	0	<b>73,331</b>
Director of Adult Social Care and Health Integration	105,958	12,168	0	<b>118,126</b>
Executive Director Growth and Places (Left Oct 2020)*	72,190	8,302	292,555	<b>373,047</b>
Director of Environment and Community Services	88,984	10,233	0	<b>99,217</b>
Executive Director of Children's Services (from September 2020)*	82,503	14,769	0	<b>97,272</b>
Head of Legal and Governance Services – Monitoring Officer	89,983	10,348	0	<b>100,331</b>
Director of Education and Partnerships	90,093	10,361	0	<b>100,454</b>
Director of Public Health	96,076	11,132	0	<b>107,208</b>

- Executive Director of Children's Services paid via agency prior to taking the post permanently in September 2020 – Paramount Consulting total cost of £69,925.
- The redundancy of the Executive Director of Growth & Place which resulted in significant strain on the Pension Fund costs was agreed as part of decisions made via the Chief Officer Appointments Committee during June 2020 following advice from the Leadership Management Team on the senior management restructure.



<b>2019/20</b>	<b>Salary (including fees and allowances)</b>	<b>Pension contributions paid for by the Council</b>	<b>Compensation for loss of office</b>	<b>Payment in lieu of Notice</b>	<b>Total including pensions contribution</b>
	£	£	£	£	£
Chief Executive – Tony Parkinson	148,837	22,733	0	0	<b>171,570</b>
Director of Public Health (left October 2019)	60,071	9,191	0	0	<b>69,262</b>
Director of Public Health (started November 2019)	22,531	0	0	0	<b>22,531</b>
Strategic Director of Finance, Governance and Support -Section 151 Officer	103,161	15,756	0	0	<b>118,917</b>
Director of Adult Social Care and Health Integration	95,005	14,536	0	0	<b>109,541</b>
Executive Director Growth and Places	120,556	18,428	0	0	<b>138,984</b>
Executive Director of Children’s Services (left February 2020)	112,253	16,892	72,000	27,718	<b>228,863</b>
Head of Legal Services – Monitoring Officer (left February 2020)	49,297	7,509	15,000	14,769	<b>86,575</b>
Director of Legal & Governance Services – Monitoring Officer (appointed Jan 2020)	18,857	2,885	0	0	<b>21,742</b>
Director of Education & Partnerships – Chief Education Officer	80,906	12,378	0	0	<b>93,284</b>

## Other Employees' Remuneration

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

2019/20				2020/21		
MBC	School	Total	Remuneration Band (£)	MBC	School	Total
32	9	41	50,000 to 54,999	28	10	38
15	4	19	55,000 to 59,999	16	6	22
7	3	10	60,000 to 64,999	12	2	14
7	2	9	65,000 to 69,999	2	1	3
2	5	7	70,000 to 74,999	3	3	6
1	0	1	75,000 to 79,999	5	3	8
1	0	1	80,000 to 84,999	0	1	1
3	0	3	85,000 to 89,999	1	0	1
0	0	0	90,000 to 94,999	1	0	1
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
0	0	0	110,000 to 114,999	0	0	0
0	0	0	115,000 to 119,999	0	0	0
1	0	1	120,000 to 124,999	0	0	0
0	0	0	125,000 to 129,999	0	0	0
1	0	1	130,000 to 134,999	1	0	1
<b>70</b>	<b>23</b>	<b>93</b>	<b>Total</b>	<b>69</b>	<b>26</b>	<b>95</b>

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

## 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	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21
							£000	£000
0 to 20,000	14	7	37	15	51	22	295	187
20,001 to 40,000	2	1	5	4	7	5	188	127
40,001 to 60,000	0	0	6	0	6	0	299	0
60,001 to 80,000	0	0	3	0	3	0	213	0
80,001 to 100,000	1	0	2	1	3	1	280	92
100,001 to 150,000	1	0	0	0	1	0	119	0
Over 150,001	1	0	0	1	1	1	162	293
<b>Total</b>	<b>19</b>	<b>8</b>	<b>53</b>	<b>21</b>	<b>72</b>	<b>29</b>	<b>1,556</b>	<b>699</b>

## Note 15 Members' Allowances and Expenses

2019/20		2020/21
£000		£000
318	Basic Allowance Paid	344
198	Special Responsibility Allowances Paid	183
7	Expenses	5
<b>523</b>	<b>Total</b>	<b>532</b>

## Note 16 Trading Operations

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

2019/2020				2020/21		
Income	Expenditure	(Surplus) / Deficit		Income	Expenditure	(Surplus) / Deficit
£0	£0	£0		£0	£0	£0
(2,570)	1,357	(1,213)	Commercial and Industrial Properties	(3,457)	987	(2,470)
(2,609)	2,378	(231)	Building Maintenance, Cleaning and Security	(2,518)	2,227	(291)
(1,344)	984	(360)	Parking	(1,354)	1,043	(311)
(4,739)	4,555	(184)	Schools Catering	(4,569)	4,112	(457)
<b>(11,262)</b>	<b>9,274</b>	<b>(1,988)</b>	<b>Total</b>	<b>(11,898)</b>	<b>8,369</b>	<b>(3,529)</b>

## Note 17 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:

2019/20		2020/21
£000		£000
89	Fees payable for external audit service	115
15	Fees payable for the certification of grant claims and returns	18
<b>104</b>	<b>Total</b>	<b>133</b>

The increase in the level of fees from Ernst & Young relates to the developing complexity of local authority audits and the requirements of the Audit Code of Practice. Additional work also needed to be undertaken in relation to Covid-19 and its impact on the financial statements plus an assessment of the Council as a going concern. The above total of £115k is the Council's estimate of the costs involved in the audit but some audit fees (£63k) are currently in dispute with the Public Sector Audit Appointments body.

The grant claims work relates to Housing Benefits and Teacher Pensions which are not part of the core audit.

## Note 18 Agency Services

The Council had no significant agency arrangements in place apart from Covid 19 Grants that Government were pass porting direct (via the Council) to third party businesses or individuals in need. The total cash spend allocated by the Council was £35.1m but this has not been recognised in the Income & Expenditure Statement.

## Note 19 Related Parties

The Council is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers 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 12. Debtor and Creditor balances for Central Government bodies are shown in notes 32 and 35.

### Senior Officers and Members

The Council's Senior Managers and Elected Members and their close relations may influence the Council's financial and operating policies. Using the Council's Register of Members' Declarations of Interest and a separate survey of both Members and Senior Officers, the following disclosures meet the criteria for related party transactions on behalf of the Council. The Director of Finance is a Director of Veritau Tees Valley Ltd. The Head of Finance & Investments is a Director of Middlesbrough Development Company.

### 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 £8.1 million (2019/20 - £11.0 million) and made charges to the Fund for Support Services of £1,120,000 (2019/20 - £1,022,000).

## Middlesbrough Development Company

As set out in the narrative report, the Council set up a wholly owned subsidiary company in February 2019 to develop the housing supply and underused sites in the local area. Middlesbrough Development Company has been given £1,170k of Section 106 funding previously received by the Council and has made a commercial loan for the remaining £395k. It has spent £1,311k of the allocated funding and is on site for the Boho Village Bright Ideas project; whilst starting to construct a new housing and retail project at Tollesby following the demolition of the old shopping precinct in early 2020.

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:

<b>Related Parties Year ended 31 March 2021</b>				
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	4,063	16	0	0
Kings Academy Trust	506	98	0	76
Middlesbrough Citizens Advice Bureau	415	18	0	0
South Tees Hospitals NHS Foundation Trust Council of Governors	965	276	0	66
Middlesbrough Voluntary Development Agency	51	0	0	0
Unity City Academy Trust	129	66	0	1
Cleveland Fire Authority	3,183	273	54	0
Middlesbrough Environment City	0	19	0	18
Veritau Tees Valley	185	0	0	0
Groundwork North East	45	1	0	0
Teesside Ability Support Centre (TABSC)	515	1	0	0

<b>Related Parties Year ended 31 March 2020</b>				
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	0	11	0	1
Veritau Tees Valley	65	0	45	0

## Note 20 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.

2019/20		2020/21
£000		£000
0	<b>Balance Brought Forward</b>	(182)
	<b>Funding Provided to the Pooled Budget</b>	
(10,691)	By the Council	(10,960)
(11,548)	By South Tees Clinical Commissioning Group	(12,109)
<b>(22,239)</b>	<b>Total Funding</b>	<b>(23,069)</b>
	<b>Expenditure met from the Pooled Budget</b>	
18,742	By the Council	19,117
3,022	By South Tees Clinical Commissioning Group	2,514
<b>21,764</b>	<b>Total Expenditure</b>	<b>21,631</b>
293	Capital Amounts allocated to 2021/22	999
<b>(182)</b>	<b>Net surplus arising on the Pooled Budget to be carried forward</b>	<b>(621)</b>

## Tees Community Equipment Service

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

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

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

2019/20		2020/21
£000		£000
<b>(452)</b>	<b>Balance brought forward</b>	<b>(236)</b>
1,980	Gross Expenditure	1,817
(1,764)	Gross Income	(1,961)
<b>(236)</b>	<b>Balance carried forward</b>	<b>(380)</b>
	<b>Contribution from Partners</b>	
(183)	Middlesbrough Council	(183)
(183)	Stockton Borough Council	(195)
(165)	Redcar & Cleveland Borough Council	(171)
(96)	Hartlepool Borough Council	(104)
(493)	South Tees Clinical Commissioning Group	
(508)	North Tees and Hartlepool NHS Foundation Trust	
	NHS Tees Valley CCG	(1,042)
(136)	Other Income	(109)
<b>(1,764)</b>	<b>Total</b>	<b>(1,804)</b>



## Notes Supporting the Balance Sheet

### Note 21 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.

2019/20		2020/21
£000		£000
<b>195,235</b>	<b>Opening Capital Financing Requirement</b>	<b>232,480</b>
	<b>Capital Investment</b>	
37,935	Property, Plant and Equipment	33,072
12,664	Investment Property	456
32	Assets Held for Sale	0
1,146	Intangible Assets	1,050
0	Heritage Assets	292
8,183	Revenue Expenditure Funded from Capital under Statute	7,888
0	Long Term Debtors	395
<b>59,960</b>	<b>Total Capital Investment</b>	<b>43,153</b>
	<b>Sources of Finance</b>	
(1,165)	Capital Receipts	(6,374)
(1,742)	Revenue Expenditure Funded from Capital under Statute – Grant Received	(4,931)
(16,361)	Government Grants and other contributions applied in year	(13,614)
	<b>Sums Set Aside from Revenue</b>	
(7)	Direct revenue contributions	(6)
(3,440)	MRP/Loans Fund Principal	(4,743)
<b>232,480</b>	<b>Closing Capital Financing Requirement</b>	<b>245,965</b>
	<b>Explanation of Movement in Year</b>	
40,685	Increase in underlying need to borrow (unsupported by government assistance)	18,228
(3,440)	MRP/loans fund Principal	(4,743)
<b>37,245</b>	<b>Increase in Capital Financing Requirement</b>	<b>13,485</b>

## Note 22 Capital Commitments

The Council has an approved 2021/22 budget for Capital works of £93.7m, and a further £66.6m planned until 2023/24.

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

Project	2021/22
	Approved Budget
	£000
Middlesbrough Development Company	12,200
Purchase of New Vehicles	3,130
Structures and Bridges	2,986
UTMC	291
East Middlesbrough Community Hub	851
Hostile Vehicle Mitigation	374
Captain Cook Public House	538
<b>Total</b>	<b>20,370</b>

## Note 23 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.

2020/21	Land and Buildings	Surplus Assets	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	TOTAL
	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>							
<b>At 1 April 2020</b>	<b>187,342</b>	<b>53,775</b>	<b>38,900</b>	<b>216,732</b>	<b>8,282</b>	<b>11,592</b>	<b>516,623</b>
Additions	15,266	803	596	9,814	1	5,769	32,249
Donations	0	0	0	823	0	0	823
Revaluation increases to Revaluation Reserve	(642)	(3,132)	0	0	0	0	(3,774)
Revaluation decreases to Deficit on Provision of Services	(5,041)	(1,316)	0	0	0	0	(6,357)
Derecognition - Disposals	(621)	(2,468)	(647)	(27)	0	0	(3,763)
Assets reclassified (to) Held for Sale	(462)	(288)	0	0	0	0	(750)
Assets reclassified (to)/from Assets – other categories	(38)	0	0	0	0	(9,095)	(9,133)

<b>At 31 March 2021</b>	<b>195,804</b>	<b>47,374</b>	<b>38,849</b>	<b>227,342</b>	<b>8,283</b>	<b>8,266</b>	<b>525,918</b>
<b>2020/21</b>	<b>Land and Buildings</b>	<b>Surplus Assets</b>	<b>Vehicles, Plant, Furniture and Equipment</b>	<b>Infrastructure Assets</b>	<b>Community Assets</b>	<b>Assets Under Construction</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Accumulated Depreciation and Impairment</b>							
<b>At 1 April 2020</b>	<b>(2,971)</b>	<b>(395)</b>	<b>(31,112)</b>	<b>(82,093)</b>	<b>0</b>	<b>0</b>	<b>(116,571)</b>
Depreciation charge for the year	(5,178)	(70)	(2,197)	(11,922)	0	0	(19,367)
Depreciation written out to the Revaluation Reserve	4,032	48	0	0	0	0	4,080
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	3,030	10	0	0	0	0	3,040
Derecognition – Disposals	(1,190)	0	637	16	0	0	(537)
Assets reclassified (to)/from Assets Held for Sale	0	288	0	0	0	0	288
Assets reclassified (to)/from other categories	0	0	0	0	0	0	0
<b>At 31 March 2021</b>	<b>(2,277)</b>	<b>(119)</b>	<b>(32,672)</b>	<b>(93,999)</b>	<b>0</b>	<b>0</b>	<b>(129,067)</b>
<b>Net Book Value At 31 March 2021</b>	<b>193,527</b>	<b>47,255</b>	<b>6,177</b>	<b>133,343</b>	<b>8,283</b>	<b>8,266</b>	<b>396,851</b>

2019/20	Land and Buildings	Surplus Assets	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	TOTAL
	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>							
<b>At 1 April 2019</b>	<b>189,403</b>	<b>48,968</b>	<b>37,523</b>	<b>207,099</b>	<b>8,257</b>	<b>6,775</b>	<b>498,025</b>
Additions	5,873	445	2,736	9,633	20	18,962	<b>37,669</b>
Donations	138	0	0	0	0	0	<b>138</b>
Revaluation increases to Revaluation Reserve	(1,988)	4,676	0	0	0	0	<b>2,688</b>
Revaluation decreases to Deficit on Provision of Services	(5,316)	327	0	0	0	(13,615)	<b>(18,604)</b>
Derecognition - Disposals	(1,270)	(1,030)	(1,359)	0	0	0	<b>(3,659)</b>
Assets reclassified (to) Held for Sale	0	289	0	0	0	0	<b>289</b>
Assets reclassified (to)/from Assets – other categories	502	100	0	0	5	(530)	<b>77</b>
<b>At 31 March 2020</b>	<b>187,342</b>	<b>53,775</b>	<b>38,900</b>	<b>216,732</b>	<b>8,282</b>	<b>11,592</b>	<b>516,623</b>

2019/20	Land and Buildings	Surplus Assets	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
<b>Accumulated Depreciation and Impairment</b>							
<b>At 1 April 2019</b>	<b>(5,193)</b>	<b>(63)</b>	<b>(29,791)</b>	<b>(74,514)</b>	<b>0</b>	<b>0</b>	<b>(109,561)</b>
Depreciation charge for the year	(4,879)	(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
<b>At 31 March 2020</b>	<b>(2,971)</b>	<b>(395)</b>	<b>(31,112)</b>	<b>(82,093)</b>	<b>0</b>	<b>0</b>	<b>(116,571)</b>

<b>Net Book Value At 31 March 2020</b>	<b>184,371</b>	<b>53,380</b>	<b>7,788</b>	<b>134,639</b>	<b>8,282</b>	<b>11,592</b>	<b>400,052</b>
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#### 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.

Included in the land and buildings totals are a number of leisure properties, which from 1st April 2016 were these 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 2021 are included in the table below. All properties were revalued at the date of transfer on 1st April 2016.

	<b>Net Book Value at 31 March 2021</b>
	<b>£000</b>
The Manor Youth and Community Centre	986
Neptune Centre	8,130
Rainbow Centre	8,314
Middlesbrough Sports Village	17,831
Golf Course	538
<b>Total</b>	<b>35,799</b>

## Note 24 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 revaluation for most of the assets revalued during 2020/21 is 1 April 2020. The Council confirms, via discussion with its external valuers, that this valuation basis remains reasonable given the uncertainty around asset values as a result of Covid-19 and that these values are appropriate for use as at 31 March 2021. The significant assumptions applied in estimating fair values at this date are:

- The estimated amount for which a property should exchange on the date of valuation and
- The transaction is at arm's length via willing parties acting knowledgeably and prudently.

### Revaluation Analysis

The table below shows the value of assets that have been revalued during 2020/21 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 2021	0	0	6,177	133,343	8,283	8,266	156,069
Valued at current value as at:							
31 March 2021	27,136	40,707	0	0	0	0	67,843
31 March 2020	27,320	3,235	0	0	0	0	30,555
31 March 2019	40,464	3,235	0	0	0	0	43,699
31 March 2018	34,535	78	0	0	0	0	34,613
31 March 2017	64,072		0	0	0	0	64,072

<b>Total Cost or Valuation</b>	<b>193,527</b>	<b>47,255</b>	<b>6,177</b>	<b>133,343</b>	<b>8,283</b>	<b>8,266</b>	<b>396,851</b>
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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 23 reconciling the movement over the year in Property, Plant and Equipment balances.

During 2020/21 the Council has recognised a net downward revaluation of £9.9 million. There were impairments to Transporter Bridge assets to a value of £3.8m. The higher value downward revaluations are;

- Downward revaluation of Inner Middlesbrough Gresham Phase 1 due to the land being provided on a long term lease £1m
- Downward revaluation of Hemlington Grange Land due to the current economic situation and an indication from developers that they see development costs increasing substantially in the future £2.1m
- Downward revaluation of Nunthorpe Grange Farm due to a change in rates applied to residential land/agricultural land and a change in use for buildings £0.9m
- Downward revaluation of Middlesbrough Bus Station due to non-inclusion of elevated areas and allowance for voids and rent reductions £1.2m
- Downward revaluation of Middlesbrough House due an increase in yield to allow for additional risk with empty office space £1m

Due to material uncertainty during the COVID pandemic a number of higher value assets were added to the revaluation programme in 2020/21 to give some certainty that asset values were carried at the correct amount and not overstated in the Balance Sheet.

The Transporter Bridge was classed as non-operational at the start of 2020/21. Work is ongoing regarding the future purpose of the asset, as to whether it will remain non-operational or repairs will be carried out over a period of time to bring it back into operation. Due to this and the future programme of works, the asset was recategorised to Infrastructure assets and any assets relating to the Bridge were impaired down to nil.

## Note 25 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 2020/21 of £4.8m relating to a revaluation of fine art and ceramics held by the Council at Middlesbrough Institute of Modern Art (MIMA). A rolling programme of revaluations has been developed and has been started this year with plans to cover the whole portfolio within the next five years.

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

	Collections				
	Ceramic	Art	Natural World	Other Cultural Interests	Total
	£000	£000	£000	£000	£000
<b>At 31 March 2021</b>	<b>3,363</b>	<b>12,302</b>	<b>9,012</b>	<b>7,766</b>	<b>32,443</b>
<b>At 31 March 2020</b>	<b>2,239</b>	<b>8,560</b>	<b>9,012</b>	<b>7,752</b>	<b>27,563</b>



## Valuation Methods

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

### Further Information on the Museums' Collections

#### *Ceramics, Porcelains and Figurines*

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

#### *Fine Art Collection*

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

#### *The Natural World Collection*

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

#### *Preservation and Management*

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

#### *Other Cultural Interests*

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

## Note 26 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.

2019/20		2020/21
£000		£000
2,610	Balance at start of the year	15,904
	<b>Additions</b>	
12,664	Purchases	456
0	Donated	1
0	Disposals	0
418	Net gains/(losses) from fair value adjustments	41
	<b>Transfers</b>	
212	(To)/From Property, Plant and Equipment	0
0	<b>Other Changes</b>	9,134
15,904	Balance at end of the year	25,536

There are currently 18 assets in total under this classification, which have all been revalued during the 2020/21 financial year due to them being held at fair/market value. Tees Advanced Manufacturing Park was transferred from Assets under Construction in 20-21 and an additional asset added, the Qube.

### 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.

2019/20		2020/21
£000		£000
(1,360)	Rental Income from Investment Property	(1,284)
<b>(1,360)</b>	<b>Net Gain</b>	<b>(1,284)</b>

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

## Note 27 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 2020		31 March 2021
£000		£000
	<b>Balance at Start of Year</b>	
11,826	Gross Carrying Amount	12,971
(7,839)	Accumulated amortisation	(9,989)
<b>3,987</b>	<b>Net Carrying amount at start of the year</b>	<b>2,982</b>
1,145	Additions : purchases	1,050
(2,150)	Amortisation for the period	(2,159)
0	Disposals	0
<b>2,982</b>	<b>Net Carrying amount at the end of the year</b>	<b>1,873</b>
	Comprising:	
12,971	Gross Carrying amount	14,022
(9,989)	Accumulated amortisation	(12,149)
<b>2,982</b>	<b>Net Carrying amount at the end of the year</b>	<b>1,873</b>

## Note 28 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 one Asset Held for Sale. Sales which took place in 20-21 are Letitia Industrial Estate £0.5m, Kirkham Row, Beechwood £0.4m, development land at Cannon Park £0.1m. Land at the former Brackenhoe site has been sold with payment due over 2 financial years 20/21 and 21/22 with 50% of the value still being held on the Asset Register.

31 March 2020		31 March 2021
£000		£000
	<b>Short Term Assets Held for Sale</b>	
<b>6,700</b>	<b>Balance outstanding at start of year</b>	<b>5,476</b>
0	Transferred between Long-Term and Current Assets Held for Sale	0
	<b>Assets newly classified as held for sale</b>	
(289)	Transferred from Property, Plant and Equipment	462
32	Additions	0
0	Revaluation losses	(87)
0	Revaluation gains	(139)
	<b>Assets declassified as held for sale:</b>	
(967)	Assets sold	(3,415)
0	Transferred to Property, Plant and Equipment	0
<b>5,476</b>	<b>Balance outstanding at year end</b>	<b>2,297</b>

## Note 29 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 instruments classified at amortised cost are carried in the Balance Sheet at their amortised cost. Their fair values disclosed below have been estimated by calculating the net present value of the remaining contractual cash flows at 31<sup>st</sup> March 2021, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- Discount rates for “Lender’s Option Borrower’s Option” (LOBO) loans have been reduced to reflect the value of the embedded options. The size of the reduction has been calculated using proprietary software.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31<sup>st</sup> March.

- The fair values of financial guarantees have been estimated based on the likelihood of the guarantees being called and the likely payments to be made.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low interest rate environment.

The fair value of a financial instrument is the price that would be received when selling an asset, or the price that would be paid when transferring a liability, to another market participant in an arms'-length transaction. Where liabilities are held as an asset by another party, such as the council's borrowing, the fair value is estimated from the holder's perspective.

**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. The fair value of short-term financial liabilities held at amortised cost, including trade payables, is assumed to approximate to the carrying amount.

**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. The fair value of short-term financial assets held at amortised cost, including trade receivables, is assumed to approximate to the carrying amount.

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 2020	As at 31 March 2021		As at 31 March 2020	As at 31 March 2021
£000	£000		£000	£000
		<b>Financial Assets – Loans and Receivables</b>		
		<b>Held at amortised cost (unless indicated)</b>		
309	309	Long Term Investments (FVOCI)	0	0
0	0	Short Term Investments	22,000	0
0	0	Cash and Cash Equivalents	22,246	20,810
<b>309</b>	<b>309</b>	<b>Total Investments</b>	<b>44,246</b>	<b>20,810</b>
		<b>Held as Debtors – amortised cost</b>		
10,003	9,860	Long Term Debtors	0	0
0	0	Short Term Debtors	9,859	9,317
<b>10,003</b>	<b>9,860</b>	<b>Total Debtors</b>	<b>9,859</b>	<b>9,317</b>
<b>10,312</b>	<b>10,169</b>	<b>Total Financial Assets</b>	<b>54,105</b>	<b>34,127</b>
		<b>Financial Liabilities – at Amortised Cost</b>		
		<b>Held as Borrowings</b>		

(179,424)	(188,667)	Long Term Borrowing	0	0
0	0	Short Term Borrowing	(55,247)	(32,089)
<b>(179,424)</b>	<b>(188,667)</b>	<b>Total Borrowings</b>	<b>(55,247)</b>	<b>(32,089)</b>
		<b>Held as Other Payables</b>		
0	0	Short Term Creditors	(6,959)	(10,549)
(1,590)	(1,451)	Long Term Creditors	0	0
<b>(1,590)</b>	<b>(1,451)</b>	<b>Total Held as Other Payables</b>	<b>(6,959)</b>	<b>(10,549)</b>
<b>(181,014)</b>	<b>(190,118)</b>	<b>Total Financial Liabilities – at Amortised Cost</b>	<b>(62,206)</b>	<b>(42,638)</b>

## Note 30 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 2021;
- 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.

Fair values can be analysed by their level in the fair value hierarchy or how reliable their basis of calculation is:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs that are observable for the asset or liability, other than quoted prices, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

All Middlesbrough financial instruments; assets and liabilities are rated as level 2 in the fair value hierarchy. The fair value of borrowings is calculated by ascertaining a fair value from the market price. The calculation applies a discounted cash flow using the rate of the asset and applies it over its life. For investments, debtors and creditors their transaction price is the best proxy for their fair value.

The fair values of the Council's financial instruments are as follows. These are higher than their carrying amounts due to the low value of the bank base rate currently:

2019/20			2020/21	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000		£000	£000
		<b>Financial Assets – Loans and Receivables</b>		
44,555	44,555	Held as Investments	25,119	25,119
19,862	19,862	Held as Debtors	19,177	19,177
<b>64,417</b>	<b>64,417</b>	<b>Financial Assets – Loans and Receivables</b>	<b>44,296</b>	<b>44,296</b>

		<b>Financial Liabilities – at Amortised Cost</b>		
(234,671)	(278,731)	Held as Borrowings	(218,756)	(266,812)
(7,940)	(7,940)	Held as Creditors	(10,549)	(10,549)
<b>(242,611)</b>	<b>(286,671)</b>	<b>Financial Liabilities – at Amortised Cost</b>	<b>(229,305)</b>	<b>(277,361)</b>

## **Financial Instruments: Risks**

The fair value of the financial liabilities held at amortised cost above is higher than their balance sheet carrying amount because the Council's portfolio of loans include a number of loans where the interest rate payable is 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:

- (a) 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.
- (b) Liquidity risk - the possibility that the Council might not have the cash available to make contracted payments to lenders, suppliers and staff on time.
- (c) Market risk - the possibility that an unplanned financial loss will materialise due to changes in market variables such as interest rates on equity prices.
- (d) 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 26 February 2020 and is available on the Council's website. The key issues within the strategy were:

- The Authorised Limit for 2020/21 was set at £300m. This is the maximum legal limit of external borrowings or other long-term liabilities.
- The Operational Boundary was expected to be £280m. 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 25%, respectively, based on the Council's net debt.

These policies were implemented by the Council's accountancy team and at no point during the 2020/21 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. No changes have been made since.

## **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. 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 table below summarises the credit risk exposures of the Council's treasury investment portfolio by credit rating and remaining time to maturity:

	2019/20		2020/21	
	Long Term	Short Term	Long Term	Short Term
Credit Rating	£000	£000	£000	£000
AA -		27,000		6,500
A	309	17,000	309	17,500
<b>Total</b>	<b>309</b>	<b>44,000</b>	<b>309</b>	<b>24,000</b>
Credit Risk not applicable	-	-	-	-
<b>Total Investments</b>	<b>309</b>	<b>44,000</b>	<b>309</b>	<b>24,000</b>

Loss allowances on treasury investments are normally calculated by reference to historic default data published by credit rating agencies and adjusted for current economic conditions. A two-year delay in cash flows is assumed to arise in the event of a default. Investments are determined to have suffered a significant increase in credit risk where they have been downgraded by three or more credit rating grades or equivalent since initial recognition, unless they retain an investment grade credit rating. They are determined to be credit impaired when awarded a "D" credit rating or below. At 31 March 2021, none of the Council's investments are captured by this and therefore it is felt that the most likely loss allowances applicable is nil.

Also the Council does not generally allow credit for customers. However, £13.236m of the £14.086m invoiced debtors balance is past its due date for payment relating principally to the Council's Public Health responsibilities. The Council maintains a bad debt provision to offset any collection losses. The past due amount can be analysed by age as follows:

2019/20		2020/21
£000		£000
7,732	Less than 3 months	9,040
580	Between 3 to 6 months	1,486
546	Between 6 months to 1 year	884
1,728	More than 1 year	1,826
<b>10,586</b>	<b>TOTAL</b>	<b>13,236</b>

Collateral - The Council initiates a legal charge on property where, for instance, Adult Social Care service users require residential care but cannot afford to pay immediately. The total collateral as at 31 March 2021 was £0.5m. (31 March 2020 - £0.965m).



## **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:

<b>2019/20</b>		<b>2020/21</b>
<b>£000</b>		<b>£000</b>
(55,608)	Less than 1 Year	(32,245)
(25,451)	Between 1 – 2 Years	(17,222)
(23,181)	Between 2 – 5 Years	(27,548)
(32,051)	Between 5 – 10 Years	(43,296)
(15,862)	Between 10 – 15 Years	(16,398)
(7,692)	Between 15 – 20 Years	(16,122)
(8,181)	Between 20 – 25 Years	(3,684)
(4,295)	Between 25 – 30 Years	(3,707)
(18,435)	Between 30 – 35 Years	(18,578)
(18,825)	Between 35 – 40 Years	(19,956)
(25,090)	More than 40 Years	(20,000)
<b>(234,671)</b>	<b>TOTAL</b>	<b>(218,756)</b>

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

## **Re-financing Risk**

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

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments made for greater than one year in duration are the key parameters used to address this risk. The Council's approved treasury and investment strategies address the main risks and the Central Finance 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 in the financial statements, 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 25% 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 how the Brexit deal will develop 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 31 Financial Instruments: Income and Expenditure

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

2019/20			2020/21	
Financial Assets	Financial Liabilities		Financial Assets	Financial Liabilities
£000	£000		£000	£000
		<b>Income</b>		
(419)	0	Interest Income	(273)	0
		<b>Expenditure</b>		
	5,682	Interest Expense		6,473
	34	Fee Expense		18
	<b>5,716</b>	<b>Total Expenditure</b>		<b>6,491</b>
	<b>5,297</b>	<b>Net Expenditure for the year</b>		<b>6,218</b>

## Note 32 Debtors

31 March 2020		31 March 2021
£000		£000
	<b>Short Term Debtors</b>	
7,210	Central Government Bodies	13,909
9,640	Other Local Authorities	7,301
2,668	NHS Bodies	1,198
51,949	Other entities and individuals	59,043
(26,057)	Bad Debt Provision	(33,480)
<b>45,410</b>	<b>Total</b>	<b>47,971</b>
	<b>Long Term Debtors</b>	
5,794	Cleveland Mall – Holiday Inn	5,608
228	Other Long Term Debtors	305
3,981	The Welding Institute	3,552
0	Middlesbrough Development Company	395
<b>10,003</b>	<b>Total</b>	<b>9,860</b>

## Note 33 Inventories

2020/21 Financial Year	1 April 2020	Purchases	Expense in the year	Written off	31 March 2021
	£000	£000	£000	£000	£000
Stocks	2,425	3,947	(4,059)	0	2,313

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

## Note 34 Cash and Cash Equivalents

31 March 2020		31 March 2021
£000		£000
68	Cash held by the Council	53
177	Bank current accounts	2,257
22,000	Short-term cash deposits	22,500
<b>22,245</b>	<b>Total</b>	<b>24,810</b>

## Note 35 Short Term Creditors

31 March 2020		31 March 2021
£000		£000
(12,744)	Central Government Bodies	(22,285)
(2,686)	Other Local Authorities	(5,888)
(1,143)	NHS Bodies	(1,709)
(26,819)	Other Entities and individuals	(28,423)
<b>(43,392)</b>	<b>Total</b>	<b>(58,305)</b>

The increase in short-term creditors relates to amount paid from central government in relation to Grants to Businesses. With the Covid-19 restrictions being eased, these will need to be repaid if not used.

## Note 36 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 2020 £000	Additional Amount in year £000	Amounts used in year £000	Balance at 31 March 2021 £000
Business Rates Appeals	(2,431)	(2,264)	2475	(2,220)
Early Retirement / Voluntary Redundancy	(41)	(146)	0	(187)
Early Retirement / Voluntary Redundancy	0	(149)	0	(149)
Social Regeneration Provision	(35)	0	35	0
<b>Total</b>	<b>(2,507)</b>	<b>(2,559)</b>	<b>2,510</b>	<b>(2,556)</b>

**Business Rates Appeals** – The Council's share of the Business Rates - Appeals Provision of £2,219,335 is split between £1,191,622 short term (less than 12 months) and £1,027,733 long term as projected using the Council's Business Rate Appeals tool. These are based on the Council's 49% share of business rates retention scheme.

## Note 37 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 2020 £000		31 March 2021 £000
(9,690)	Capital Grants Unapplied Reserve	(4,805)
(3,389)	Capital Contributions Unapplied Reserve	(3,124)
(145)	Capital Receipts Reserve	5
(9,400)	Uncommitted General Fund	(10,500)
0	Direct Revenue Funding Unapplied	(51)
(22,093)	Earmarked Reserves	(38,295)
<b>(44,717)</b>	<b>Total</b>	<b>(56,770)</b>

The purpose of each Reserve is as follows:

### **Capital Grants and Contributions Unapplied Reserves**

These reserves hold amounts from Capital Grants and Contributions that have been recognised in the Comprehensive Income and Expenditure Statement in line with the accounting code of practice, 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 received in previous financial years and classified as income in regard to the terms and conditions of the grant awarded. This income is rolled forward in reserves to meet the future commitments under the grant. Details of the balances on individual earmarked reserves is contained in note 7.

## **Note 38 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.

<b>31 March 2020</b>		<b>31 March 2021</b>
<b>£000</b>		<b>£000</b>
(85,357)	Revaluation Reserve	(84,938)
(145,334)	Capital Adjustment Account	(138,633)
0	Deferred Capital Receipts Reserve	0
283,560	Pensions Reserve	314,066
(482)	Collection Fund Adjustment Account	13,159
896	Accumulating Compensated Absences Adjustment Account	695
2,782	Dedicated Schools Grants Adjustment Account	3,291
<b>56,065</b>	<b>Total Unusable Reserves</b>	<b>107,640</b>

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

### **Revaluation Reserve**

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

### **Capital Adjustment Account**

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

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

### **Deferred Capital Receipts Reserve**

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

### **Pensions Reserve**

This reserve is used to reconcile the payments made for the year to various statutory pension schemes and the net change in the Council's recognised liability under IAS19 – Employee Benefits, for the same period.

### **Collection Fund Adjustment Account**

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

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

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

### **Dedicated Schools Grants Adjustment Account**

From November 2020 The Local Authorities (Capital Finance and Accounting) Regulations (the 2003 Regulations) established new accounting practices in relation to the treatment of local authorities' schools budget deficits such that where a local authority has a deficit on its schools budget relating to its accounts for a financial year beginning on 1st April 2020, 1st April 2021 or 1st April 2022, it must not charge the amount of that deficit to a revenue account. The local authority must record any such deficit in a separate account established solely for the purpose of recording deficits relating to its school's budget. The CIPFA local authority accounting code has determined this as the 'Dedicated Schools Grant Adjustment Account'. The new accounting practice has the effect of separating schools budget deficits for a period of three financial years.

### **Movement in Unusable Reserves Statement 2020/21**

<b>Movement in Reserves Statement</b>	<b>Revaluation Reserve</b>	<b>Capital Adj Account</b>	<b>Deferred Capital Receipts Reserve</b>	<b>Dedicated Schools Grants Adj Account</b>	<b>Pensions Reserve</b>	<b>Collection Fund Adjustment Account</b>	<b>Accumulated Compensation Absences Adjustment Account</b>	<b>Total Unusable Reserves</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>		<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Balance at 1 April 2020</b>	<b>(85,357)</b>	<b>(145,334)</b>	<b>0</b>	<b>2,782</b>	<b>283,561</b>	<b>(483)</b>	<b>896</b>	<b>56,065</b>
Allocated from Other Comprehensive Income and Expenditure	(4,807)	0	0	0	10,265	0	0	5,458
Transfers to/(from) Usable Reserves (Note 7)	0	11,927	0	509	20,240	13,642	(201)	46,117
Difference between fair value and historical cost depreciation	1,314	(1,314)	0	0	0	0	0	0
Accumulated Revalued Amount on assets sold or scrapped	3,912	(3,912)	0	0	0	0	0	0
<b>Balance at 31 March 2021</b>	<b>(84,938)</b>	<b>(138,633)</b>	<b>0</b>	<b>3,291</b>	<b>314,066</b>	<b>13,159</b>	<b>695</b>	<b>107,640</b>

## Movement in Unusable Reserves Statement 2019/20

Movement in Reserves Statement	Revaluation Reserve	Capital Adj Account	Deferred Capital Receipts Reserve	Dedicated Schools Grants Adj Account	Pensions Reserve	Collection Fund Adjustment Account	Accumulated Compensation Absences Adjustment Account	Total Unusable Reserves
	£000	£000	£000		£000	£000	£000	£000
<b>Balance at 1 April 2019</b>	<b>(81,266)</b>	<b>(163,835)</b>	<b>(2)</b>	<b>1,683</b>	<b>199,376</b>	<b>(860)</b>	<b>1,081</b>	<b>(43,823)</b>
Allocated from Other Comprehensive Income and Expenditure	(7,312)	0	1	0	66,655	0	0	<b>59,344</b>
Transfers to/(from) Usable Reserves (Note 6)	0	21,722	1	1,099	17,530	377	(185)	<b>40,544</b>
Difference between fair value and historical cost depreciation	1,295	(1,295)	0	0	0	0	0	<b>0</b>
Accumulated Revalued Amount on assets sold or scrapped	1,926	(1,926)	0	0	0	0	0	<b>0</b>
<b>Balance at 31 March 2020</b>	<b>(85,357)</b>	<b>(145,334)</b>	<b>0</b>	<b>2,782</b>	<b>283,561</b>	<b>(483)</b>	<b>896</b>	<b>56,065</b>



## Note 39 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. The income, expenditure, assets and liabilities set out below includes the actuaries' assessment of the court of appeal decision to include guaranteed minimum pension and the McCloud and Sargeant judgements within the local government scheme benefits going forwards. It also includes the impact of the triennial valuation of the Teesside Pension Fund from 1<sup>st</sup> April 2019.

### Comprehensive Income and Expenditure Statement

Funded 2019/20	Unfunded 2019/20	Comprehensive Income and Expenditure Statement	Funded 2020/21	Unfunded 2020/21
£000	£000	Charged to the Surplus or Deficit on the Provision of Services	£000	£000
		As cost of Service:		
25,074	0	Current Service cost	24,035	0
460	0	Settlements and Curtailments	576	0
3,942	692	As Financing and Investment Income and Interest on net defined benefit	5,693	605
<b>29,476</b>	<b>692</b>	<b>Total charged to the Deficit on the Provision of Services</b>	<b>30,304</b>	<b>605</b>
		Charged to Other Comprehensive Income and Expenditure		
68,048	(1,393)	Actuarial (Gains) / Losses	16,231	(1,286)
<b>97,524</b>	<b>(701)</b>	<b>Total to the Comprehensive Income and Expenditure Statement</b>	<b>46,535</b>	<b>(681)</b>

### Movement in Reserves Statement (General Fund)

Funded 2019/20	Unfunded 2019/20	Movement in Reserves Statement (General Fund)	Funded 2020/21	Unfunded 2020/21
£000	£000		£000	£000
(29,476)	(692)	Reversal of total charged to the Deficit on the Provision of Service	(30,304)	(605)
		<b>Actual Amount charged for pensions in the year:</b>		
10,967	1,670	Employers contributions payable to scheme	8,652	2,017
<b>(18,509)</b>	<b>978</b>	<b>Total amount included in the General Fund for the year</b>	<b>(21,652)</b>	<b>1412</b>

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

Funded 2019/20	Unfunded 2019/20	Reconciliation of Liabilities	Funded 2020/21	Unfunded 2020/21
£000	£000		£000	£000
<b>(934,668)</b>	<b>(29,677)</b>	<b>Opening Balance at 1 April</b>	<b>(912,552)</b>	<b>(27,305)</b>
(25,074)	0	Current service cost	(24,035)	0
(22,145)	(691)	Interest cost	(20,731)	(606)
(4,387)	0	Contributions by scheme participants	(4,485)	0
45,399	1,393	Actuarial Gains/(Losses)	(172,368)	1,286
28,783	1,670	Benefits paid	27,892	2,017
(460)	0	Past service curtailments	(576)	0
<b>(912,552)</b>	<b>(27,305)</b>	<b>Closing Balance at 31 March</b>	<b>(1,106,855)</b>	<b>(24,608)</b>

### Reconciliation of Fair Value of Scheme Assets

Funded 2019/20	Unfunded 2019/20	Reconciliation of Fair Value of Scheme Assets	Funded 2020/21	Unfunded 2020/21
£000	£000		£000	£000
<b>764,970</b>	<b>0</b>	<b>Opening Balance at 1 April</b>	<b>656,297</b>	<b>0</b>
18,203	0	Expected return on plan assets	15,038	0
(113,447)	0	Actuarial Gains/(Losses)	160,817	0
10,967	1,670	Employer contributions	8,652	2,017
4,387	0	Contributions by scheme participants	4,485	0
(28,783)	(1,670)	Benefits paid	(27,892)	(2,017)
<b>656,297</b>	<b>0</b>	<b>Closing Balance at 31 March</b>	<b>817,397</b>	<b>0</b>

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

The actual return on scheme assets in the year was £171.175 million gain (2019/20 £90.564 million gain). This reflects the impact of the Covid-19 pandemic on the performance of the Teesside Pension Fund at 31<sup>st</sup> March 2020.

<b>Scheme History</b>	<b>2015/2016</b>	<b>2016/2017</b>	<b>2017/2018</b>	<b>2018/2019</b>	<b>2019/2020</b>	<b>2020/2021</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Present value of liabilities	(760,739)	(895,644)	(918,758)	(964,345)	(939,858)	(1,131,463)
Fair value of assets	575,103	704,295	718,360	764,970	656,297	817,397
<b>Scheme Deficit</b>	<b>(185,636)</b>	<b>(191,349)</b>	<b>(200,398)</b>	<b>(199,375)</b>	<b>(283,561)</b>	<b>(314,066)</b>

The scheme deficit shown above includes £24.068 million in respect of unfunded defined benefit obligations (2019/20 £27.305 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 2022 is £8.375 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 2020 with these values rolled forward to 31<sup>st</sup> March 2021. The calculations have also been done over the duration of the Scheme - which has been forecast at 19.8 years.

The principal assumptions used by the actuary have been:

	<b>2019/20</b>	<b>2020/21</b>
<b>Mortality Assumptions</b>		
Longevity at 65 for current pensioners		
• Men	21.8	21.90
• Women	23.5	23.60
Longevity at 65 for future pensioners		
* Men	23.2	23.30
* Women	25.3	25.40
<b>Other Assumptions</b>		
Rate of Inflation (RPI)	N/A	N/A
Rate of Inflation (CPI)	2.00%	2.70%
Rate of increase in salaries	3.00%	3.70%
Rate of increase in pensions	2.00%	2.70%
Rate of discounting scheme liabilities	2.30%	2.10%
<b>Take up of option to convert annual pension into retirement lump sum</b>	<b>80.00%</b>	<b>80.00%</b>

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

	2019/20	2020/21
Equity Investments	72.70%	79.80%
Gilts	0.0%	0.0%
Other Bonds	0.0%	0.0%
Property	8.90%	7.50%
Cash / Liquidity	18.40%	12.70%
	<b>100.0%</b>	<b>100.0%</b>

## Sensitivity Analysis

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2021 and the projected service cost is set out below, sensitivity on unfunded benefits have not been included on materiality grounds:

<b>Disclosure rate assumption</b>		
Adjustment to discount rate	0.1% p.a.	-0.1% p.a.
Present value of total obligation (£000's)	1,084,718	1,128,992
% change in present value of total obligation	-2.0%	2.0%
Projected service cost (£000's)	33,205	35,648
Approximate % change in projected service cost	-3.6%	3.6%

<b>Rate of general increase in salaries</b>		
Adjustment to salary rate	0.1% p.a.	-0.1% p.a.
Present value of total obligation (£000's)	1,109,069	1,104,641
% change in present value of total obligation	0.2%	-0.2%
Projected service cost (£000's)	34,409	34,409
Approximate % change in projected service cost	0.0%	0.0%

<b>Rate of increase to pension in payment and deferred pensions assumption, and the rate of revaluation of pension accounts assumption</b>		
Adjustment to pension increase rate	0.1% p.a.	-0.1% p.a.
Present value of total obligation (£000's)	1,126,778	1,088,038
% change in present value of total obligation	1.8%	-1.7%
Projected service cost (£000's)	35,648	33,206
Approximate % change in projected service cost	3.6%	-3.5%

<b>Post retirement mortality assumption</b>		
Adjustment to mortality age rating assumption*	-1 year	+1 year
Present value of total obligation (£000's)	1,147,809	1,067,008
% change in present value of total obligation	1.8%	-1.7%
Projected service cost (£000's)	34,409	34,409
Approximate % change in projected service cost	0.0%	0.0%

\* 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 40 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 2020/21 the Council paid £2.88 million (2019/20 – £2.56 million) to Teachers' Pensions in respect of teachers' retirement benefits, representing an average of 23.68% (2019/20 – 20.88%) 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 41 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 2020 £000		31 March 2021 £000
2,065	No Later than 1 year	1,933
5,108	Later than 1 year and not later than 5 years	4,158
30,119	Later than 5 years	30,263
<b>37,292</b>	<b>Total</b>	<b>36,354</b>

### Finance Leases

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

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

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

31 March 2020 £000		31 March 2021 £000
464	No later the 1 year	464
1,856	Between 1 year and 5 years	1,856
2,340	Later than 5 years	1,660
<b>4,660</b>	<b>Total</b>	<b>3,980</b>

## Note 42 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 2020		31 March 2021
£000		£000
360	No Later than 1 year	407
1,238	Later than 1 year and not later than 5 years	1,325
719	Later than 5 years	454
<b>2,317</b>	<b>Total</b>	<b>2,186</b>

### 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 2020	Total future minimum lease payments	31 March 2021
£000		£000
711	Amounts due within one year	711
2,844	Amounts due between 1 to 5 years	2,844
20,950	Amounts due after 5 years	20,239
<b>24,505</b>	<b>Total payments due</b>	<b>23,794</b>
(12,131)	Less: Future finance charges	(11,902)
<b>12,374</b>	<b>Present Value of Lease Obligations</b>	<b>11,892</b>

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 £13.5m being determined from future rentals generated. The buildings were around two-thirds occupied at 31<sup>st</sup> March 2021 with negotiations with potential tenants still in progress for the remaining areas.

## Note 43 Contingent Liabilities

At 31 March 2021, 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.

### Sub Zero - Snow Centre

A court proceeding with Subzero (Middlehaven) Ltd who are trying to claim damages from the Council as a result of the Council not providing funding for the Snow Centre development. The claim amount is £162,000, and there is also an additional cost of £10,000 legal fees expected.

### Deprivation of Liberty Safeguards - Confirmed

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 2021; the financial ramifications remain unclear at this time.

### Teachers' Pension Scheme

A teacher was erroneously not enrolled into the teachers pension scheme 15 years ago by omission by MBC HR (Kier). Whilst MBC are ultimately liable for the total £126,000, it is uncertain prior to legal exploration, if MBC will be liable for the full portion that includes £32,000 interest.

## Note 44 Contingent Assets

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



## Note 45 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 2020	Surplus / (Deficit) in 2020/21	Fund Balance at 31 March 2021
		£	£	£
Teesside Education Endowment	514301	7,463	5	7,468
Capt J.V.Nancarrow Trust – Educational support	506937	110,987	75	111,062
Middlesbrough Educational Trust	532293	67,813	44	67,857
Hustler Playing Fields Trust – Sport	523381	1,522,869	33	1,522,902
W.M.Anderton Trust – Kings Manor School and Acklam 6 <sup>th</sup> Form College	509198	1,384	1	1,385
Teesside Relief in Sickness	229137	3,952	3	3,955
Lady Crosswaite Bequest – support for the older people	234932	483,380	-721	482,659
Home Independent Trust *	226433	123,652	23,119	146,771
Wilson & Marwood Trust – support for disadvantaged people	221291	15,528	10	15,538
Stewart Park Trust – Recreation	507075	8,754	6	8,760
Levick Trust – accommodation for over 60's	255056	337,656	0	337,656
Captain Cook Birthplace Trust	507317	0	3	3
Dorman Museum and Art Gallery Appeal Trust	n/a	3,306	2	3,308
<b>Total</b>		<b>2,686,744</b>	<b>22,580</b>	<b>2,709,324</b>

\* Formerly King Edward VII & Sister Purvis

## Notes Supporting the Cash Flow Statement

### Note 46 Cash Flow Statement – Investing and Financing Activities

The table below shows detail of Investing Activities

2019/20 £000		2020/21 £000
(52,013)	Purchase of property, plant and equipment, investment property and intangible assets	(35,248)
(12,000)	Purchase of short-term and long-term investments	22,000
1,232	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	6,224
<b>(62,781)</b>	<b>Net cash flows from investing activities</b>	<b>(7,024)</b>

The table below shows detail of Financing Activities

2019/20 £000		2020/21 £000
(145)	Amounts applied to Finance Lease Repayments (Capital Element)	(138)
72,124	Repayments of short- and long-term borrowing	(15,915)
<b>71,979</b>	<b>Net cash flows from financing activities</b>	<b>(16,053)</b>

# 4. Collection Fund Accounts



*Temenos*

## Collection Fund Income and Expenditure Account

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

2019/20		2020/21		
£000		£000	£000	£000
Total		Council Tax	Business Rates	Total
	<b>Income</b>			
(69,475)	Council Tax receivable	(73,013)	0	(73,013)
(36,469)	Business Rates receivable	0	(15,314)	(15,314)
(105,944)	<b>Total Income</b>	<b>(73,013)</b>	<b>(15,314)</b>	<b>(88,327)</b>
	<b>Expenditure</b>			
	<b>Precepts and Demands:</b>			
55,285	Middlesbrough Council	58,707	0	58,707
8,420	Cleveland Police and Crime Commissioner	8,941	0	8,941
2,600	Cleveland Fire Authority	2,705	0	2,705
	<b>Business Rates</b>			
17,807	Payments to Central Government	0	17,886	17,886
356	Payments to Cleveland Fire Authority	0	358	358
17,451	Payments to Middlesbrough Council	0	17,528	17,528
172	Costs of Collection	0	170	170
	<b>Bad &amp; Doubtful Debts</b>			
174	Write Offs	0	(1)	(1)
4,180	Provision for Bad Debts	5,401	1,796	7,197
(320)	Provision for Appeals	0	(431)	(431)
106,125	<b>Total Expenditure</b>	<b>75,754</b>	<b>37,306</b>	<b>113,060</b>
	<b>Contributions towards previous year's estimate</b>			
238	Collection Fund Deficit / (Surplus)	562	222	784
419	<b>Deficit / (Surplus) for the Year</b>	<b>3,303</b>	<b>22,214</b>	<b>25,517</b>
	<b>COLLECTION FUND BALANCE</b>			
(1,174)	Balance brought forward at 1 April	(325)	(430)	(755)
419	Deficit / (Surplus) for the year (as above)	3,303	22,214	25,517
(755)	<b>Balance carried forward at 31 March</b>	<b>2,978</b>	<b>21,784</b>	<b>24,762</b>
	<b>Allocated to:</b>			
(482)	Middlesbrough Council	2,484	10,674	13,158
(41)	Cleveland Police and Crime Commissioner	379	0	379
(17)	Cleveland Fire Authority	115	218	333
(215)	Central Government	0	10,892	10,892
(755)	<b>Balance carried forward at 31 March</b>	<b>2,978</b>	<b>21,784</b>	<b>24,762</b>

## Notes to the Collection Fund

### Note 1 Income from Council Tax

#### Calculation of the Council Tax base

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

Band	Estimated No. of Taxable Properties after Discounts	Ratio	Band D Equivalent Council Tax	Band D Equivalent Dwellings
			£000	
A*	37	+5/9	35	21
A	17,635	+6/9	20,111	11,756
B	7,859	+7/9	10,456	6,113
C	8,945	+8/9	13,601	7,951
D	4,647	+9/9	7,949	4,647
E	2,236	+11/9	4,675	2,733
F	800	+13/9	1,977	1,156
G	479	+15/9	1,366	798
H	30	+18/9	103	60
	<b>42,668</b>		<b>60,273</b>	<b>35,235</b>
Less: Adjustments for assumed non-collection based on budgets assumption of 97.4% collection rate			(1,566)	(916)
<b>Total</b>			<b>58,707</b>	<b>34,319</b>

A\* - Band A properties receiving Disabled Relief

The average Council Tax for band D dwellings for Middlesbrough Council was £1,710.63

### 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 2021 was £103,369,078 (£103,290,803) at 31 March 2020) and the national non-domestic multiplier for the year was 51.2p (50.4p in 2019/20).

### 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:

2019/20		2020/21
£000		£000
(469)	Middlesbrough Council	1,064
(71)	Cleveland Police and Crime Commissioner	162
(22)	Cleveland Fire Authority	49
<b>(562)</b>	<b>Total Deficit / (Surplus)</b>	<b>1,275</b>

Note that for 2020/21 the £1.275m is after the deduction of 2/3rds of the Exceptional Balance of £2.078m which is to be financed in 2022/23 and 2023/24

### Note 4 Council Tax and Business Rates Provisions

In response to the effects of the COVID crisis in 2020/21 a provision of 30% has been made for debt less than 12 months old on both Council Tax and Business Rates Bad Debts Provision (BDP). In previous years this has been zero%. No change has been made in relation to prior years debt where 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 methodology for the provision for appeals is the same as previous years as this is based on live data from the Analyse Local system.

The total provisions held for the Collection Fund at 31<sup>st</sup> March are set out in the table below:

	Council Tax BDP £000	Business Rates BDP £000	Provision for Appeals £000	Total £000
Opening Balance as at 1 <sup>st</sup> April 2020	18,277	6,989	4,960	<b>30,226</b>
Reductions in the provision in year	-	-	(431)	<b>(431)</b>
Increase in the provision in year	5,401	1,795	-	<b>7,196</b>
<b>Closing balance as at 31<sup>st</sup> March 2021</b>	<b>23,678</b>	<b>8,784</b>	<b>4,529</b>	<b>36,991</b>



# 5. Teesside Pension Fund Accounts and Notes



*MIMA and the Bottle of Notes*



## Notes to the Pension Fund Accounts

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# Teesside Pension Fund Statement of Accounts

## Introduction

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

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

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

The Council has delegated decision making in relation to the Fund to the Pension Fund Committee. The day to day administration of the Fund and the operation of the management arrangements and investment portfolio is the responsibility of the Director of Finance (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, dependant'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 £56 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 2021, the Fund continued to pay more in benefits than it received in contributions as more members are drawing pensions. Net withdrawal of funds were £61.4 million (2020 £55.4 million). During the year, the overall value of the Fund increased by £854 million to £4.56 billion.

## Membership

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

The tables overleaf summarises the membership of the scheme over recent years showing an overall increase in all categories of members: active members, members who have deferred rights and those who are drawing pensions.

<b>Membership of the Fund</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Active	23,791	23,295	22,724	23,438	<b>24,238</b>
Deferred	22,861	23,243	23,361	23,488	<b>23,322</b>
Pensioner	22,177	22,757	23,983	24,651	<b>25,366</b>
<b>Total</b>	<b>68,829</b>	<b>69,295</b>	<b>70,068</b>	<b>71,577</b>	<b>72,926</b>

<b>Summary of Changes in Membership</b>	<b>Active Members</b>	<b>Deferred Members</b>	<b>Pensioner Members</b>	<b>Dependants</b>	<b>Total</b>
At 1 April 2020	<b>23,438</b>	<b>23,488</b>	<b>21,538</b>	<b>3,113</b>	<b>71,577</b>
Adjustments	187	73	104	8	<b>372</b>
New Members	2,743	730	1,304	308	<b>5,085</b>
Change in Status	(558)	(777)	(177)	0	<b>(1,512)</b>
Leavers	(1,572)	(192)	(613)	(219)	<b>(2,596)</b>
At 31 March 2021	<b>24,238</b>	<b>23,322</b>	<b>22,156</b>	<b>3,210</b>	<b>72,926</b>
% of Total Membership	<b>33.2%</b>	<b>32.0%</b>	<b>30.4%</b>	<b>4.4%</b>	<b>100.0%</b>

During the year we had 9 new employers and 21 left the fund which means as at year end there were 148 employers in the Fund. The new employers were as follows: 3 were scheduled employers and 6 were admission bodies. The majority of the leavers were schools merging into their trust as one and not exits from the fund. 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.
- Admission bodies - organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admission 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 2021

2019/20			2020/21
£000		Note	£000
	<b>Dealings with members, employers and others directly involved in the Fund</b>		
(99,421)	Contributions	6	(95,393)
(8,546)	Transfers in from other pension funds	8	(3,061)
(3,985)	Other income	9	(5,577)
(111,952)	<b>Total Income from Members</b>		(104,031)
146,259	Benefits payable	7	149,785
13,683	Payments to and on account of leavers	10	8,158
159,942	<b>Total Expenditure to Members</b>		157,943
47,990	<b>Net / withdrawals from dealings with members</b>		53,912
7,455	Management expenses	11, 19	7,521
55,445	<b>Net withdrawals including fund management expenses</b>		61,433
	<b>Returns on investment</b>		
(40,980)	Investment income	12	(13,741)
368,157	Profits and losses on disposal of investments and changes in the market value of investments	13	(901,667)
327,177	<b>Net returns on investment</b>		(915,408)
382,622	<b>Net (increase)/decrease in the net assets available for benefits during the year</b>		(853,975)
4,088,095	<b>Net assets of the scheme as at 1 April</b>		3,705,473
3,705,473	<b>Net assets of the scheme as at 31 March</b>		4,559,448
2019/20	<b>Net Assets Statement as at 31 March</b>		2020/21
3,713,228	Investments Assets	13	4,562,717
9,294	Current Assets	16	12,032
(17,049)	Current liabilities	17	(15,301)
3,705,473	<b>Net assets of the Fund at 31 March</b>		4,559,448

## 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 2021/22 and beyond as part of its going concern assessment. This included consideration of the following:

- The Fund had assets of c. £4.56 billion as at 31 March 2021. £3.82 billion (84%) of this is held in assets which are considered to be liquid and which could be converted to cash if required (including £0.34 billion actually held as cash).
- The Fund has estimated that in 2021/22 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 2021/22 with the remaining £70 million being taken from the Fund's cash balance, which was £341 million at the 31 March 2021.

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 2020/21 financial year and its position as at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, 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 2022 due to the impact of Covid-19.

## 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 2021.

## **Net Assets Statement**

### **Financial Assets**

Financial assets are included in the net assets statement on a fair value basis as at 31st March 2021. 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 2021, 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 2021. 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/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. The VAT is reclaimed via Middlesbrough Council's VAT regime.

# 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 2021 was £149,793,736 (£33,836,477 at 31st March 2020).

## 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 £127.045 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 £730 million 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).	

## 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.

		2019/20	2020/21
		£000	£000
Employers	Normal	(68,491)	(63,910)
	Additional Contributions	(12)	(13)
	Deficit Recovery Contributions	(1,004)	(1,055)
Members	Normal	(29,914)	(30,415)
<b>Total</b>		<b>(99,421)</b>	<b>(95,393)</b>

### Analysis of Total Contributions

		2019/20	2020/21
		£000	£000
Administering Authority – Middlesbrough Council		(14,925)	(13,451)
Scheduled Bodies		(71,009)	(68,071)
Admission Bodies		(13,487)	(13,871)
<b>Total</b>		<b>(99,421)</b>	<b>(95,393)</b>

## Note 7 Benefits Payable

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

		2019/20	2020/21
		£000	£000
Pensions		119,302	123,640
Commutations and lump sum retirement benefits		24,257	22,947
Lump sum death benefits		2,700	3,198
<b>Total</b>		<b>146,259</b>	<b>149,785</b>

### Analysis of Total Benefits

		2019/20	2020/21
		£000	£000
Administering Authority – Middlesbrough Council		24,275	24,159
Scheduled Bodies		87,288	91,839
Admission Bodies		34,696	33,787
<b>Total</b>		<b>146,259</b>	<b>149,785</b>

## Note 8 Transfers in from Other Pension Funds

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

	2019/20	2020/21
	£000	£000
Individual transfers in from other schemes	(8,546)	(3,061)
<b>Total</b>	<b>(8,546)</b>	<b>(3,061)</b>

## Note 9 Other Income

	2019/20	2020/21
	£000	£000
Capital Costs of Early Retirements	(3,982)	(4,311)
Other income	(3)	(1,266)
<b>Total</b>	<b>(3,985)</b>	<b>(5,577)</b>

## Note 10 Payments to and on account of leavers

	2019/20	2020/21
	£000	£000
Refunds to members leaving scheme	309	205
Payments for members joining state scheme	95	159
Individual transfers to other schemes	13,279	7,794
<b>Total</b>	<b>13,683</b>	<b>8,158</b>

## Note 11 Management Expenses

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

	2019/20	2020/21
	£000	£000
Administrative costs	2,185	1,938
Investment management expenses	1,480	4,957
Oversight and governance costs	3,768	588
<b>Total</b>	<b>7,433</b>	<b>7,483</b>

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

	2019/20	2020/21
	£000	£000
Management fees	840	3,664
Custody fees	14	23
Transaction costs	120	719
Loans & investment support service charges	506	551
<b>Total</b>	<b>1,480</b>	<b>4,957</b>

## Note 12 Investment Income

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

	2019/20	2020/21
	£000	£000
Income from equities	(1,511)	0
Income from pooled investment vehicles	(19,253)	511
Net rents from properties (see note below)	(15,682)	(12,584)
Interest on cash deposits	(4,534)	(1,668)
<b>Total</b>	<b>(40,980)</b>	<b>(13,741)</b>

### Rental Income and Property Expenses

	2019/20	2020/21
	£000	£000
Gross Rental income	(15,870)	(13,563)
Property Expense / (Income)	188	979
<b>Net Rents from Properties</b>	<b>(15,682)</b>	<b>(12,584)</b>

## 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.

2020/21	Value at 1 April 2020	Purchases at Cost	Sale Proceeds	Change in Market Value	Value at 31 March 2021
	£000	£000	£000	£000	£000
Equities	89	0	0	1	90
Pooled Investment Vehicles	2,868,327	876,896	(765,047)	889,814	3,869,990
Pooled Property Investments	51,134	190	(386)	13,102	64,040
Properties	278,450	0	0	(1,250)	277,200
	3,198,000	877,086	(765,433)	901,667	4,211,320
Cash Deposits	501,295				349,550
Other Investment Balances	13,933				1,847
<b>Net Investment assets</b>	<b>3,713,228</b>				<b>4,562,717</b>

2019/20	Value at 1 April 2019	Purchases at Cost	Sale Proceeds	Change in Market Value	Value at 31 March 2020
			£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
	<b>3,540,968</b>	<b>179,550</b>	<b>(154,361)</b>	<b>(368,157)</b>	<b>3,198,000</b>
Cash Deposits	527,454				501,295
Other Investment Balances	14,807				13,933
<b>Net Investment assets</b>	<b>4,083,229</b>				<b>3,713,228</b>

### Change in Market Value

The change in the market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. Realised profit was £136,402,035 and unrealised gain was £765,265,080. Prior year-realised profit was £22,068,647 and unrealised loss was £390,225,586.

### 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 £719,226 (2019/2020 £119,666). In addition to the transaction costs disclosed here, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund. For accounting purposes the transaction costs have been re-allocated to expenses.

### Investments Analysed by Fund Manager

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

- For 2020/2021 the value at 31 March 2021 of the direct property portfolio was: £277,200,000
- For 2019/20 the value at 31 March 2020 of the direct property portfolio was : £278,450,000

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 2020	% of net assets of the scheme	Market Value 31 March 2021	% of net assets of the scheme
	£'000			£'000
Border to Coast PE Overseas Dev Mkts	194,064	5.23%	953,478	22.64%
Border to Coast PE UK Listed Equity	1,023,645	27.60%	1,292,616	30.69%
SSGA MPF Pacific Basin Ex-Japan Index	302,041	8.14%	451,648	10.72%
SSGA MPF Japan Equity Index	228,691	6.17%	0	0.00%



SSGA MPF North America Equity Index Sub Fund	558,226	15.05%	467,716	11.11%
SSGA MPF Euro Ex UK Equity Index Sub Fund	344,340	9.29%	0	0.00%

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 Committee.

Asset Class / Security	Market Value 31 March 2019	% of asset class	Market Value 31 March 2020	% of asset class
	£'000		£'000	
<b>UK Equities</b>				
Border to Coast UK L E-AA GBP	1,023,645	99.99%	1,1292,616	99.99%
<b>Overseas Equities</b>				
Border to Coast OS DEV M-AA GBP	194,064	11.92%	953,478	43.56%
SSGA MPF Pacific Basin ex-Japan Index	302,041	18.56%	451,648	20.63%
SSGA MPF Japan Equity Index	228,691	14.05%	0	0.00%
SSGA MPF North America Equity Index Sub Fund	558,226	34.30%	467,716	21.37%
SSGA MPF Euro Ex UK Equity Index Sub Fund	344,340	21.16%	207,819	9.49%
<b>Alternatives – Private Equities</b>				
Crown Co Investment Opp II PLC	17,081	33.55%	17,658	11.79%
Pantheon Global Co-Investment Opportunities IV	12,581	24.71%	12,276	8.20%
Border to Coast Private Equity Series 1A	9,192	18.05%	24,546	16.39%
Crown Growth Global Opportunities III	7,275	14.29%	11,278	7.53%
<b>Alternatives – Infrastructure</b>				
ACIF Infrastructure	13,665	14.62%	18,647	12.71%
Innisfree PFI Continuation Fund	9,949	10.64%	9,729	6.63%
Innisfree PFI Secondary Fund 2	8,473	9.06%	8,628	5.88%
Border to Coast Infrastructure Series 1A	12,450	13.32%	17,918	12.21%
Capital Dynamics Clean Energy & Infrastructure VIII	5,223	5.59%	8,365	5.70%
JP Morgan IIF UK I LP	20,162	21.57%	36,719	25.03%
Ancala Infrastructure Fund II	6,082	6.51%	9,946	6.78%
Gresham House BSI Infrastructure LP	13,036	13.94%	12,525	8.54%
<b>Alternatives – Other Alternatives</b>				
Amedeo Air Four Plus Ltd	3,900	5.35%	0	0.00%
Darwin Leisure Development Fund – Class D	16,787	23.03%	17,400	18.93%
Darwin Leisure Prop Units - Class C	22,108	30.33%	22,769	24.77%
Darwin Bereavement Services Fund - Class B	15,164	20.80%	16,070	17.48%
Hearthstone Residential Fund 1	7,704	10.57%	8,498	9.024%
Gresham House BSI Housing Fund LP	7,221	9.91%	5,806	6.32%
<b>Direct Property</b>				

Doncaster (Omega Boulevard)	24,350	8.74%	<b>30,350</b>	<b>10.95%</b>
Exeter (The Meridian Centre)	18,000	6.46%	<b>13,900</b>	<b>5.01%</b>
Birmingham (Bromford Central)	17,350	6.23%	<b>18,150</b>	<b>6.55%</b>
Gateshead (Team Valley Trading Estate)	16,950	6.09%	<b>20,500</b>	<b>7.40%</b>
Rugby (Valley Park)	15,500	5.57%	<b>17,250</b>	<b>6.22%</b>
Cheltenham (Fosse Way)	14,250	5.12%	<b>15,175</b>	<b>5.47%</b>
Lutterworth (Magna Park)	0	0.00%	<b>15,700</b>	<b>5.66%</b>
<b>Property Unit Trusts</b>				
Standard Life Investments European Property Growth Fund	22,459	43.92%	<b>36,403</b>	<b>56.84%</b>
Royal London Property Investment	10,684	20.89%	<b>9,832</b>	<b>15.35%</b>
LAMIT - Local Authorities Property Fund	4,151	8.12%	<b>4,017</b>	<b>6.27%</b>
Hermes Property	4,452	8.71%	<b>4,330</b>	<b>6.76%</b>
Threadneedle Property	3,602	7.04%	<b>3,520</b>	<b>5.5%</b>
Legal and General Managed Property Fund	5,787	11.32%	<b>5,937</b>	<b>9.28%</b>

### Geographical Analysis of Investments

	As at 31/03/20		As at 31/03/21	
	£000	%	£000	%
United Kingdom	1,443,038	45%	1,755,016	42%
United States	721,216	22%	1,029,673	24%
Asia Pacific	360,260	11%	737,691	17%
Europe	425,381	14%	485,317	12%
Japan	248,097	8%	203,614	5%
Others	8	0%	9	0%
<b>Total</b>	<b>3,198,000</b>	<b>100%</b>	<b>4,211,320</b>	<b>100%</b>

### Equities

	As at 31/03/20	As at 31/03/21
	£000	£000
UK quoted	81	81
Overseas quoted	8	9
<b>Total</b>	<b>89</b>	<b>90</b>

### Pooled Investment Vehicles and Properties

	As at 31/03/20	As at 31/03/21
	£000	£000
UK Equity	1,023,638	1,292,616
Pooled Property investment Vehicle	51,134	64,040
Private Equity	50,918	149,794
Infrastructure	93,487	146,725
Other Alternative Investments	72,891	91,928
<b>UK Unit and Investment Trusts Total</b>	<b>1,292,068</b>	<b>1,745,103</b>
Overseas Equities	1,627,393	2,188,927
<b>Overseas Unit and Investment Trusts Total</b>	<b>1,627,393</b>	<b>2,188,927</b>
<b>Total</b>	<b>2,919,461</b>	<b>3,934,030</b>

## UK Properties

	As at 31/03/20	As at 31/03/21
	£000	£000
Freehold	215,275	215,725
Leasehold	63,175	61,475
<b>Total</b>	<b>278,450</b>	<b>277,200</b>

The properties were valued on the basis of Material Valuation Uncertainty at 31 March 2021 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 31/03/20	As at 31/03/21
	£000	£000
Sterling Cash deposits	501,295	349,550

## Other Investment Balances

	As at 31/03/20	As at 31/03/21
	£000	£000
Cash deposits with custodian	13,147	1,470
Outstanding dividend entitlements	41	0
Interest due on cash deposits	745	377
<b>Total</b>	<b>13,933</b>	<b>1,847</b>

## Outstanding Commitments

As at 31 March 2021, the Fund had the following outstanding commitments.

	Initial Commitment	Capital Payments made	Outstanding commitments at 31 March 2021
<b>Infrastructure</b>			
	<b>GBP</b>	<b>GBP</b>	<b>GBP</b>
Border to Coast Infrastructure Series 1A	100,000,000	25,993,784	74,006,216
Border to Coast Infrastructure Series 1B	50,000,000	5,043,886	44,956,114
Capital Dynamics Clean Energy Infrastructure Fund VIII	20,000,000	9,100,754	10,899,246
Capital Dynamics Clean Energy Infrastructure Fund VIII - Co Investment	10,000,000	4,550,377	5,449,623
Gresham House	20,000,000	12,599,002	7,400,998
Innisfree PFI Continuation Fund	10,000,000	9,708,498	291,502
Innisfree PFI Secondary Fund 2	10,000,000	8,360,796	1,639,204
<b>Total GBP</b>	<b>220,000,000</b>	<b>75,357,097</b>	<b>144,642,903</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
Access Capital Infrastructure Fund	23,000,000	20,677,000	2,323,000
Access Capital Infrastructure Fund II	20,000,000	7,860,000	12,140,000
Access Capital Infrastructure Fund II (Fund 2)	22,000,000	2,100,000	19,900,000
Ancala Infrastructure Fund II	23,000,000	12,106,917	10,893,083
Foresight Energy Infrastructure	17,000,000	3,697,048	13,302,952
<b>Total EUR</b>	<b>105,000,000</b>	<b>46,440,966</b>	<b>58,559,034</b>

	<b>USD</b>	<b>USD</b>	<b>USD</b>
Blackrock Global Energy & Power Infrastructure Fund III	25,000,000	9,003,141	15,996,859
Blackrock Global Renewable Power III	25,000,000	3,144,238	21,855,762
<b>Total USD</b>	<b>50,000,000</b>	<b>12,147,379</b>	<b>37,852,621</b>
<b>Other Alternatives</b>			
	<b>GBP</b>	<b>GBP</b>	<b>GBP</b>
Bridges Evergreen TPF Housing Co-Investment LP	5,000,000	360,633	4,639,367
Gresham House Housing Fund	20,000,000	6,740,693	13,259,307
Hearthstone Residential Fund 1	10,000,000	9,645,955	354,045
<b>Total GBP</b>	<b>35,000,000</b>	<b>16,747,281</b>	<b>18,252,719</b>
Pantheon Senior Debt Secondaries II	25,000,000	8,774,390	16,225,610
<b>Total USD</b>	<b>25,000,000</b>	<b>8,774,390</b>	<b>16,225,610</b>
<b>Private Equity</b>			
	<b>GBP</b>	<b>GBP</b>	<b>GBP</b>
Border to Coast Private Equity Series 1A	100,000,000	27,175,743	72,824,257
Border to Coast Private Equity Series 1B	50,000,000	728,104	49,271,896
Capital Dynamics LGPS Collective for Pools	10,000,000	3,100,000	6,900,000

The Model T Finance Company	19,999,950	19,999,950	0
Hermes Innovation Fund	15,000,000	5,073,397	9,926,603
<b>Total GBP</b>	<b>194,999,950</b>	<b>56,077,194</b>	<b>138,922,756</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
Access Capital Fund VIII Growth Buy-Out Europe	30,000,000	5,130,000	24,870,000
Access Capital Co-Investment Fund Buy-Out Europe II	22,000,000	6,750,000	15,250,000
Capital Dynamics Mid-Market Direct V	20,000,000	7,600,000	12,400,000
Crown Growth Global Opportunities III	30,000,000	13,350,000	16,650,000
Unigestion Direct II	25,000,000	2,525,542	22,474,4588
Unigestion Secondary V	50,000,000	11,000,000	39,000,000
<b>Total EUR</b>	<b>177,000,000</b>	<b>46,355,542</b>	<b>130,644,458</b>
	<b>USD</b>	<b>USD</b>	<b>USD</b>
Blackrock Private Opportunities Fund IV	25,000,000	12,181,751	12,818,249
Capital Dynamics Global Secondaries V	22,000,000	10,120,000	11,880,000
Crown Co-Investment Opportunities II	30,000,000	20,805,000	9,195,000
Crown Global Opportunities VII	40,000,000	12,280,000	27,720,000
Crown Secondaries Special Opportunities II	25,000,000	5,875,000	19,125,000
Pantheon Global Co Investment Opportunities IV	30,000,000	20,770,000	9,230,000
<b>Total USD</b>	<b>172,000,000</b>	<b>82,031,751</b>	<b>89,968,249</b>

## Note 14 Financial Instruments

### Net Gains and Losses on Financial Instruments

Financial Assets	2019/20	2020/21
	£000	£000
Fair Value through profit and loss account	368,157	(901,667)

### Fair Value of Financial Instruments

	Fair Value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Fair Value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
	As at 31/03/20			As at 31/03/21		
Financial Assets	£000	£000	£000	£000	£000	£000
Equities	89			90		
Pooled Investments	2,868,327			3,869,990		
Pooled Property Investments	51,134			64,040		
Cash		501,295			349,550	
Other investment balances		13,933			1,847	
Sundry debtors and prepayments		9,294			12,032	
	<b>2,919,550</b>	<b>524,522</b>	<b>0</b>	<b>3,934,120</b>	<b>363,429</b>	<b>0</b>
Financial Liabilities						
Sundry creditors			(17,049)			(15,301)
	<b>0</b>	<b>0</b>	<b>(17,049)</b>	<b>0</b>	<b>0</b>	<b>(15,301)</b>
<b>Net Financial Assets</b>	<b>2,919,550</b>	<b>524,522</b>	<b>(17,049)</b>	<b>3,934,120</b>	<b>363,429</b>	<b>(15,301)</b>

## Valuation of Financial Instruments Carried at Fair Value

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

### Level 1

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

### Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

### Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

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

Teesside Pension Fund has no investments in hedge funds.

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

### Valuation of Financial Instruments carried at fair value

	Level 1	Level 2	Level 3	Total
<b>Value as at 31 March 2021</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Financial assets at fair value through profit and loss account	90	2,465,168	1,468,862	<b>3,934,120</b>
Non-financial assets through profit and loss account	0	0	277,200	<b>277,200</b>
Financial Assets at amortised cost	363,429	0	0	<b>363,429</b>
Financial Liabilities at amortised cost	(15,301)	0	0	<b>(15,301)</b>
<b>Total Financial Assets</b>	<b>348,218</b>	<b>2,465,168</b>	<b>1,746,062</b>	<b>4,559,448</b>

### Valuation of Financial Instruments carried at fair value

	Level 1	Level 2	Level 3	Total
<b>Value as at 31 March 2020</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Financial assets at fair value through profit and loss account	89	1,357,271	1,562,190	<b>2,919,550</b>
Non-financial assets through profit and loss account	0	0	278,450	<b>278,450</b>
Financial Assets at amortised cost	524,522	0	0	<b>524,522</b>
Financial Liabilities at amortised cost	(17,049)	0	0	<b>(17,049)</b>
<b>Total Financial Assets</b>	<b>507,562</b>	<b>1,357,271</b>	<b>1,840,640</b>	<b>3,705,473</b>

### Sensitivity of Assets at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation classification described above are likely to be accurate

to within, the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2021.

### Valuation of Financial Instruments carried at fair value – 31 March 2021

	Assessed valuation range (+/-)	Value at 31 March 2020	Value on increase	Value on decrease
		£000	£000	£000
Pooled Investments - Overseas Equity	13.46%	1,235,449	1,401,741	1,069,158
Pooled Investments - Private Equity	17.27%	149,794	175,664	123,925
Pooled Investments - Infrastructure	17.27%	35,473	41,599	29,347
Pooled Investments - Other Alternatives	17.27%	5,806	6,809	4,803
Pooled Investments - Property	8.69%	42,340	46,019	38,661
<b>Total</b>		<b>1,468,862</b>	<b>1,671,832</b>	<b>1,265,894</b>

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

	Assessed valuation range (+/-)	Value at 31 March 2019	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
<b>Total</b>		<b>1,562,190</b>	<b>1,729,513</b>	<b>1,394,870</b>

### Reconciliation of Fair Value Measurements within level 3 during 2020/21

	Market Value 1 April 2020	Transfer between levels	Purchases	Sales	Unrealised Gains/ Losses	Realised Gains/ Losses	Market Value 31 March 2021
	£000	£000	£000	£000	£000	£000	£000
Pooled Investments – Overseas Equity	1,433,862	0	0	(745,023)	405,364	141,246	1,235,449
Pooled Investments – Private Equity	33,836	0	108,082	(6,850)	14,726	0	149,794
Pooled Investments – Infrastructure	59,565	(59,322)	22,195	(3,554)	16,589	0	35,473
Pooled Investments – Other Alternatives	7,221	0	1,686	(2,166)	(935)	0	5,806
Pooled Investments	28,246	0	13,534	(386)	946	0	42,340
<b>Total</b>	<b>1,562,730</b>	<b>(59,322)</b>	<b>145,497</b>	<b>(757,979)</b>	<b>437,230</b>	<b>141,246</b>	<b>1,468,862</b>



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

	Market Value 1 April 2019	Transfer between levels	Purchases	Sales	Unrealised Gains/ Losses	Realised Gains/ Losses	Market Value 31 March 2020
	£000	£000	£000	£000	£000	£000	£000
Pooled Investments – UK Equity	6,740	0	0	(6,870)	0	130	0
Pooled Investments – Overseas Equity	1,614,037	0	0	(75,000)	(105,175)	0	1,433,862
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
<b>Total</b>	<b>1,697,678</b>	<b>0</b>	<b>105,507</b>	<b>(99,673)</b>	<b>(140,912)</b>	<b>130</b>	<b>1,562,730</b>

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

### Risk and Risk Management

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

### Market Risk

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

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

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in three ways:

1. The actuarial valuation of the Fund which is carried out every three years and resets the employer contribution rates.
2. The asset liability study which is carried out every three years or more frequently if required

considers alternative asset allocations for the Fund and the long term impact on employer contribution rates.

- Quarterly monitoring of the performance of the Fund against selected benchmarks, and annual performance reports to the Pension Fund Committee.

## 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 2020/21 reporting period.

2020/21 Price Risk		Value as at 31/03/21	Change	Value on Increase	Value on Decrease
Asset Type	Region	£000	%	£000	£000
Equities	UK	81	16.07%	94	68
	Non UK	9	13.46%	10	8
	Total	90		104	76
Managed and Unitised Funds	UK	1,477,735	16.07%	1,715,207	1,240,263
	Non UK	2,456,295	13.46%	2,786,912	2,125,678
	Total	3,934,030		4,502,119	3,365,941
<b>Total</b>		<b>3,934,120</b>		<b>4,502,223</b>	<b>3,366,017</b>

2019/20 Price Risk		Value as at 31/03/20	Change	Value on Increase	Value on Decrease
Asset Type	Region	£000	%	£000	Asset Type
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
<b>Total</b>		<b>2,919,550</b>	<b>Total</b>	<b>3,296,080</b>	<b>2,543,020</b>

## Interest Rate Risk

Interest rate risk is the risk to which the Fund is exposed to changes in interest rates and relates to its holdings in cash. The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2021 is set out below:

<b>Asset Type at 31 March</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>£000</b>	<b>£000</b>
Cash and cash equivalents	501,295	349,550
Other Investment balances	13,933	1,847
<b>Total</b>	<b>515,228</b>	<b>351,397</b>

## Sensitivity Analysis

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

<b>Asset Type</b>		<b>+ 25 BPS</b>	<b>- 25 BPS</b>
<b>Carrying value at 31 March 2021</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cash and cash equivalents	349,550	874	(874)
Cash balances	1,847	5	(5)
<b>Total</b>	<b>351,397</b>	<b>878</b>	<b>(878)</b>

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

## 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 Committee is informed quarterly of the Fund's currency exposure. The following tables summarise the Fund's currency exposure as at 31 March 2020 and as at 31 March 2021, showing the sensitivity analysis of foreign exchange movements.

<b>Currency Risk 31 March 2021</b>	<b>Value £000</b>	<b>Change %</b>	<b>Value on Increase £000</b>	<b>Value on Decrease £000</b>
Australian Dollar	9	8.60%	10	8
Euro	485,317	5.80%	513,465	457,169
Japanese Yen	203,613	9.30%	222,549	184,677
US Dollar	1,029,673	8.60%	1,118,225	941,121
Asia Pacific ex Japan basket	737,691	8.60%	801,132	674,250
<b>Total</b>	<b>2,456,303</b>		<b>2,655,381</b>	<b>2,257,225</b>

<b>Currency Risk 31 March 2020</b>	<b>Value £000</b>	<b>Change %</b>	<b>Value on Increase £000</b>	<b>Value on Decrease £000</b>
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
<b>Total</b>	<b>1,754,962</b>		<b>1,930,289</b>	<b>1,579,635</b>

Following analysis of historical data in consultation with Portfolio Evaluation Ltd, the Fund considers the likely

volatility associated with foreign exchange rate movements to be as shown above. A percentage strengthening/weakening of the pound against the various currencies in which the fund holds investments would 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 2021. The LGPS Regulations require that a risk assessment of any new transferee admission 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 admission body 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 there are no commitments to contribute further capital to any of the existing fund investments. 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:

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

The actuarial assumptions used to calculate the promised value of benefits at 31 March 2021 were:

## Funding Assumptions

CPI increases	2.7%
Salary Increases	3.7%
Pension increases	2.7%
Discount rate	2.1%

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

Mortality Assumptions:	<b>Years</b>
Longevity at 65 for current pensioners:	
• Men	21.90
• Women	23.60
Longevity at 65 for future pensioners :	
• Men	23.30
• Women	25.40

## 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 2020	31 March 2021
	£000	£000
Other Debtors	1,218	2,740
Sundry Debtors	615	1,183
Contributions due in respect of		
Employers	5,127	4,123
Members	2,050	3,180
Capital cost of early retirements	181	0
Cash balances	103	806
<b>Total</b>	<b>9,294</b>	<b>12,032</b>

Analysis of Debtors	31 March 2020	31 March 2021
	£000	£000
Other local authorities	4,501	3,918
Other entities and individuals	4,690	7,308
Add cash balances	103	806
<b>Total</b>	<b>9,294</b>	<b>12,032</b>

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

## Note 17 Current Liabilities

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

Amounts due within one year	31 March 2020	31 March 2021
	£000	£000
Rents received in advance	(1,291)	(2,042)
Accrued expenses	(14,791)	(12,361)
Other payables	(967)	(898)
<b>Total</b>	<b>(17,049)</b>	<b>(15,301)</b>

Analysed by	31 March 2020	31 March 2021
	£000	£000
Other local authorities	(380)	(1,120)
Public Corp & Trading Funds	0	(1,058)
Other entities and individuals	(16,669)	(13,123)
<b>Total</b>	<b>(17,049)</b>	<b>(15,301)</b>

## Note 18 Related Party Transactions

The Fund is administered by Middlesbrough Council. During the reporting period, the council incurred costs of £1,120,000 (2019/20: £1,016,000) in relation to the administration and management of the fund and was reimbursed by the fund for these expenses. Middlesbrough Council is one of the largest members of the pension fund and made employer contribution payments of £8.1 million over the period (2019/20 - £11.0 million).

## Note 19 External Audit Costs

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

	2019/20	2020/21
	£000	£000
Payable in respect of external audit	22	38
<b>Total</b>	<b>22</b>	<b>38</b>

There is currently an outstanding amount of £23k to be paid still outstanding on the audit of the 2019/20 statements. This is with public sector audit appointments to arbitrate on. The fee for 2020/21 has only just been proposed.

## Note 20 Senior Employees' Remuneration

	2019/20	2020/21
	£000	£000
Key Management Personnel		
Short Term Benefits	64	66
Post-Employment Benefits	10	10
<b>Total</b>	<b>74</b>	<b>76</b>

## **Note 21 Events after the Balance Sheet Date**

There are no events to report in this category at the authorised for issue date (20 July 2021).



## The Compliance Statement

### The Compliance Statement Local Government Pension Scheme Regulations

Middlesbrough Council administers the Teesside Pension Fund in accordance with:

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

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

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

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

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

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

### Investment Strategy Statement

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require that Local Government Pension Scheme's administering authorities prepare, publish and maintain an Investment Strategy Statement (ISS). The current version of the Teesside Pension Fund ISS was approved by the Pension Fund Committee in March 2021 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 Fund Committee 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) as 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 Pension Fund Committee;
- Structure of meetings;
- Membership; and
- Principles of governance.

The latest policy document can be viewed at:

<https://www.teespen.org.uk/about-us/pensions-panel/>

## 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:

<https://www.teespen.org.uk/about-us/communications-policy/>

# Teesside Pension Fund

## Statement of the Actuary for the year ended 31 March 2021

### 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:

<b>Year from 1 April</b>	<b>% of pensionable pay</b>	<b>Plus total contribution amount (£M)</b>
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 16<sup>th</sup> 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

## Schedule of Contribution Rates

Net rate of contribution payable by each employing organisation for the period 1 April 2020 to 31 March 2021 under regulation 62 of the Local Government Pension Scheme Regulations 2013.

	Employers Rates %	Employees £000	Employers £000
Ad_Astra Academy Trust	17.50%	198	602
All Saints Academy	17.50%	31	88
Ash Trees Academy	17.50%	236	0
Badger Hill Academy	17.50%	9	27
Barnard Grove Primary School	17.50%	-12	5
Beamish Museum Ltd	23.30%	123	510
Beyond Housing	19.30%	470	1,381
Billingham Town Council	17.70%	6	18
Bulloughs Cleaning Services	17.90%	10	31
Caldicotes Primary Academy	17.50%	7	20
Care and Custody Health Ltd	15.90%	5	13
Care Quality Commission	17.90%	1,038	2,404
Carmel Education Trust	17.50%	262	798
Catcote Academy	17.50%	103	313
Caterlink - RCBC - 00353	21.50%	7	29
Caterlink - St_Oswalds	22.30%	3	13
Churchill's Collaborative Trust	17.90%	1	4
Churchill's Hardwick Green	17.00%	2	8
Churchill's Harewood	17.00%	0	1
Churchill's Outwood Grange	17.90%	3	7
Churchill's Yarm Primary	17.00%	1	3
Cleveland Fire Brigade	14.80%	220	496
Cleveland Fire Support Network	14.80%	2	0
Community Integrated Care	23.00%	0	3
Compass Contract Services Ltd	17.90%	10	32
Conyers School	17.50%	149	449
Creative Management Services Ltd	24.90%	2	7
Diocese of Middlesbrough Trustee	22.30%	9	20
Dyke House Academy	17.50%	77	225
Easterside Academy	17.50%	29	89
Ecocleen Services (Operations) Ltd	26.40%	0	1
Eden Academy Trust Limited	17.50%	72	215
Egglescliffe Primary School	17.50%	6	20
Emmanuel School Foundation	17.50%	77	231
Endeavour Academies Trust	17.50%	132	382
Enquire Learning Trust (Central)	17.50%	81	155
Eskdale Academy	17.50%	-3	-8
Extol Academy Trust (Eldon Grove)	17.50%	48	174
Fabrick Housing Group	17.40%	1,049	2,631
Falcon Education Academies Trust	17.50%	16	43

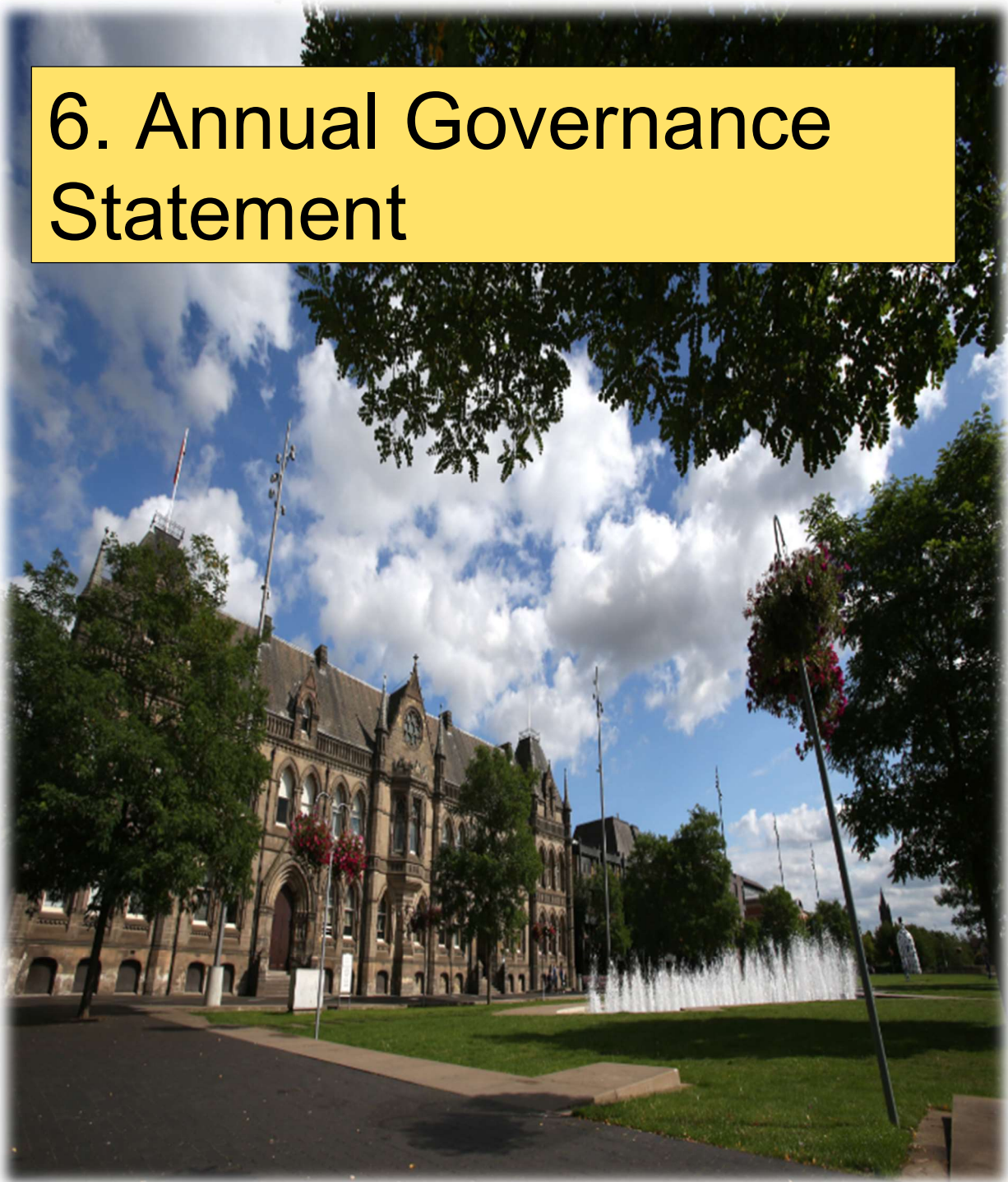


Fleet Factors RCBC	10.20%	1	2
Forward Swindon Ltd	0.00%	0	350
Frederick Nattrass Primary Academy	17.50%	20	59
Freebrough Academy	17.50%	46	136
Future Regeneration of Grangetown	30.90%	2	12
Galileo Multi Academy Trust	17.50%	227	679
Grangefield Academy	17.50%	46	136
Green Lane Primary Academy	17.50%	33	102
Guisborough Town Council	17.70%	6	18
Hardwick Green Primary Academy	17.50%	21	62
Harrow Gate Primary Academy	17.50%	29	87
Hartlepool Borough Council	12.40%	3,291	6,397
Hartlepool Care Services Ltd	24.70%	2	10
Hartlepool College of Further Education	15.20%	161	410
Hartlepool Sixth Form College	15.20%	20	52
Hemlington Hall Academy	17.50%	28	84
Holy Trinity Primary School	17.50%	14	43
Horizons Specialist Academy Trust	17.50%	208	613
Hutchinson's Catering	17.90%	3	11
Ian Ramsey Church of England Academy	17.50%	190	0
Ingleby Barwick Town Council	17.70%	3	6
Ingleby Manor Free School & Sixth Form	17.50%	38	111
James Cook Learning Trust	17.50%	58	172
Kader Academy	17.50%	19	57
KGB Cleaning Ltd - LJS	14.80%	1	3
KTS Academy	17.50%	79	247
Legacy Learning Trust	17.50%	151	446
Liberata UK Ltd	0.00%	44	0
Lockwood Parish Council	17.70%	1	2
Loftus Town Council	17.70%	2	5
Manor Community Academy	17.50%	58	169
Mellors Catering Ltd - Dormanstown	21.20%	1	4
Mellors Catering Services Ltd (Central)	17.90%	4	12
Mellors Catering Services Ltd (Normanby)	17.90%	2	7
Mellors Ironstone	17.90%	3	11
Mellors NPCAT	17.90%	14	45
Middlesbrough and Stockton Mind	17.50%	2	7
Middlesbrough College	15.20%	393	971
Middlesbrough Council	11.50%	5,318	8,133
Mitie Cleveland Fire	17.50%	1	2
Nicholas Postgate Catholic Academy Trust	17.50%	522	1,532
NMRN Operations	15.80%	4	11
Normanby Primary School	17.50%	32	99
North Ormesby Primary Academy	17.50%	18	54
North Shore Academy	17.50%	44	133
Northern Lights Learning Trust	17.50%	10	30

Norton Primary Academy	17.50%	25	75
Nunthorpe Academy	17.50%	89	255
Nunthorpe Primary Academy	17.50%	14	42
Oak Tree Academy	17.50%	27	82
One Awards Limited	22.20%	29	92
One IT Services and Solutions Ltd	15.60%	52	103
One IT Services Ltd - Porter	15.90%	2	5
ONsite Building Trust	19.30%	3	9
Ormesby Primary School	17.50%	15	48
Our Children 1st Academy Trust	17.50%	33	103
Outwood Academy Acklam	17.50%	75	229
Outwood Academy Bishopsgarth	17.50%	46	136
Outwood Academy Bydales	17.50%	32	96
Outwood Academy Normanby	17.50%	37	108
Outwood Academy Ormesby	17.50%	51	154
Outwood Academy Redcar	17.50%	32	96
Outwood Academy Riverside	17.50%	7	21
Overfields Primary School	17.50%	13	39
Pentland Academy	17.50%	27	84
Police & Crime Commissioner for Cleveland	14.50%	93	168
Prince Regent Street trust	17.50%	46	138
Redcar & Eston CIC	17.90%	4	10
Redcar and Cleveland Borough Council	10.20%	3,193	5,033
River Tees Multi Academy Trust	17.50%	54	153
Riverdale Primary School	17.50%	8	26
Rose Wood Academy	17.50%	22	63
Rye Hills Academy	17.50%	54	158
Saltburn Marske and New Mask Parish Council	17.70%	4	10
Skelton and Brotton Parish Council	17.70%	3	10
Skelton Primary School	17.50%	36	101
SLM Charitable Trust MBC	11.50%	51	94
SLM Community Leisure Charitable Trust	19.20%	36	112
SLM Fitness & Health Ltd (MBC)	11.50%	4	9
SLM Fitness and Health Ltd	19.20%	2	8
SLM Food & Beverage Ltd (MBC)	11.50%	3	6
SLM Food and Beverage Ltd	19.20%	1	4
Sopra Steria Ltd	14.50%	134	294
South Tees Development Corporation	20.20%	86	184
St_Aidans Primary School	17.50%	18	54
St_Bede's Catholic Academy	17.50%	2	7
St_Francis of Assisi	17.50%	20	60
St_Mark's Academy	17.50%	30	90
St_Mary's CE Primary School	17.50%	6	22
Stagecoach Transit	43.50%	2	582
Steel River Academy Trust	17.50%	72	219
Stockton Borough Council	13.10%	5,123	10,622

Stockton Riverside College	15.20%	370	907
Sunnyside Academy	17.50%	49	149
Tascor Services Ltd - PFI	18.00%	1	5
Tees Active Limited	18.20%	99	271
Tees Valley Collaborative Trust	17.50%	99	285
Tees Valley Combined Authority	15.30%	319	652
Tees Valley Community Asset Preservation Trust	17.00%	2	5
Tees Valley Education Trust	17.50%	102	296
Teesside Learning Trust	17.50%	20	49
Teesside University	15.80%	2,018	4,646
Teesville Primary School	10.20%	37	45
The Chief Constable for Cleveland	14.50%	1,377	3,033
The Northern School of Art	15.20%	120	288
Thornaby C of E Primary	17.50%	19	59
Thornaby Town Council	17.70%	1	2
UMi Commercial Ltd	24.50%	3	97
Unity City Academy	17.50%	56	164
Veritau Tees Valley	17.50%	8	12
Viewley Hill Academy Trust	17.50%	18	54
Vision Academy Learning Trust	17.50%	239	717
Whitecliffe Academy	17.50%	6	19
Wynyard Church of England Primary School	17.50%	18	55
XPS Administration Ltd	11.50%	31	66
Yarm Primary School	17.50%	20	60
Zetland Primary School	17.50%	18	56
<b>Total Contributions 2020/21</b>		<b>30,415</b>	<b>64,978</b>

# 6. Annual Governance Statement



Middlesbrough Town Hall and Centre Square

## **Annual Governance Statement 2020/21**

### **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 (hyperlink to be included), which sets out its corporate governance framework and is reviewed annually. 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.

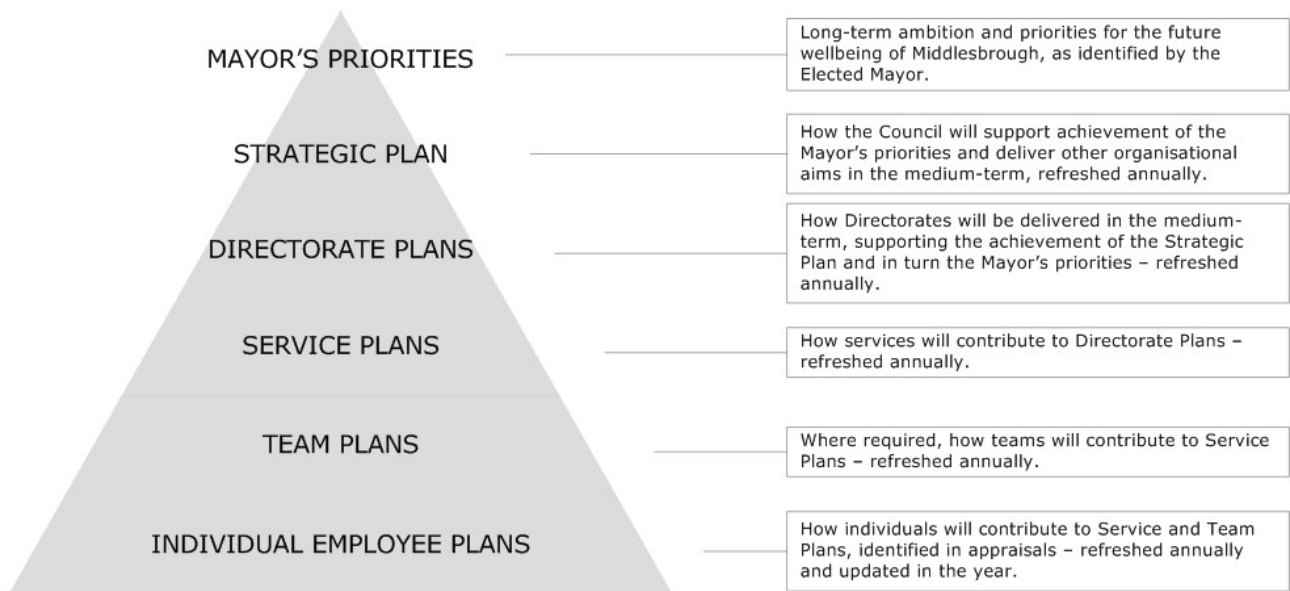
### **Structure of the AGS**

5. The AGS comprises the following sections:
  - an overview of the Council's governance arrangements;
  - progress made on governance during 2020/21;
  - issues that have arisen during 2020/21;
  - a position statement against the Code of Corporate Governance; and
  - conclusion and resulting governance priorities for 2021/22.
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.

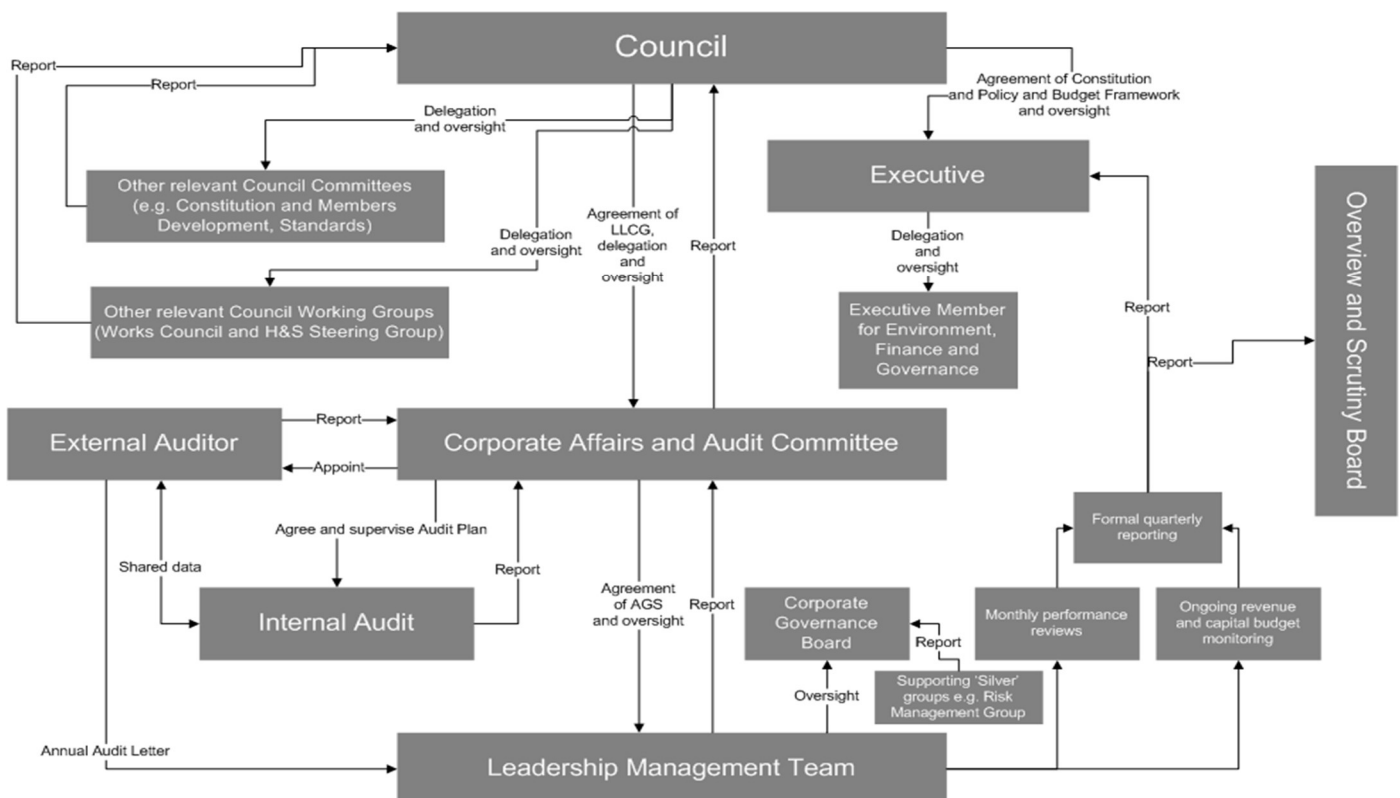
### **The Council's governance arrangements**

7. The Committee structure in place within the Council during 2020/21 is set out Appendix 1. The terms of reference of all committees are published on the Council's websites ([hyperlink to be included](#)).
8. Committees take decisions in line with the Council's approved strategies and policies. The [Strategic Plan](#) is the Council's overarching business plan for the medium-term, and is typically refreshed on an annual basis. The plan was refreshed in February 2021 to reflect the impact of COVID-19 and UK's exit from the European Union on Middlesbrough and on the Council's strategic priorities. There is a 'golden thread' which runs from this document through the rest of the Council's governance and policy frameworks.





- In making decisions, the Mayor and councillors are supported by a senior management structure that is designed to support effective compliance with the Council's legal and governance responsibilities, led by the three statutory officers (Head of Paid Service, Section 151 Officer and Monitoring Officer). Some decisions are delegated to senior officers. All delegations are published on the Council's website ([hyperlink to be included](#)).
- The Council's [Constitution](#) 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 direction on the various roles in place to ensure effective corporate governance within the Council.
- Member and officer groups work together with the Council's auditors within the following structure to ensure compliance with the LCGG and its supporting policies and procedures (as set out in Appendix 2) and promote continuous improvement in governance, maximising its potential to deliver its priorities and value for money.



## **Progress made during 2020/21**

### **Implementing actions from the 2019/20 AGS**

12. The 2019/20 AGS outlined a range of actions that would be taken during 2020/21 to strengthen corporate governance. Progress on these is set out below and has been impacted by the pandemic, as relevant staff directed their capacity towards adapting current and innovating governance arrangements to manage the Council's response.

<b>Action</b>	<b>Lead officer</b>	<b>Status</b>
Implement a case management tool to complement the revised member enquiries process for those Councillors who wish to use it.	Head of Strategy, Information and Governance	Delayed – discussions will be held with group leaders during 2021/22 to assess whether there is still demand for the tool.
Launch the Council's new open data site which will make published data more accessible.	Head of Strategy, Information and Governance	Completed
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.	Head of Strategy, Information and Governance, Head of Financial Planning and Support	Completed
Undertake population of the central partnerships register.	Head of Strategy, Information and Governance	Delayed. Will be progressed in 2021/22
Refresh the Member Development framework to include delivery of training on diversity and ethics.	Head of Democratic Services	Partially completed. Some diversity training delivered, remaining elements of the action will be delivered during 2021/22.
Promote use of the Senior Member Development Framework.	Head of Democratic Services	Completed
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	Completed
Continue to offer training on the Contract Management Framework to all contract managers during 2020/21.	Head of Strategic Commissioning and Procurement	Ongoing
Review the Strategic Procurement Strategy during 2020/21.	Head of Strategic Commissioning and Procurement	Completed
Refreshed marketing and communications delivery plan in place during 2020/21.	Head of Marketing and Communications	Completed
Undertake a review of digital engagement capabilities post Covid-19 including the Council's website to meet appetite for digital engagement.	Head of Marketing and Communications, Head of ICT, Head of Locality Working	Due to the duration of the pandemic, this was delayed until 2021/22
Continue to implement a scheme of sub-delegations where appropriate to further improve governance around officer delegated decisions.	Director of Legal and Governance Services	Delayed – to be delivered during 2021/22



Action	Lead officer	Status
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.	Head of Strategy, Information and Governance	Delayed – to be delivered during 2021/22
During 2020/21 the (Middlesbrough Development) <a href="#">company's website</a> 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.	Director of Regeneration and Culture	Completed
Establish an approach to reviewing delivery models to identify changes required to delivery models.	Head of Strategy, Information and Governance	Delayed – to be delivered during 2021/22
Progress joint strategic needs assessments for adults to ensure a joined up strategic oversight of the needs of the town.	Head of Strategy, Information and Governance	Delayed – to be delivered during 2021/22
Deliver the OFSTED Improvement plan, in particular those actions that have been identified to strengthen leadership within Children's Safeguarding Services.	Executive Director of Children's Services	Ongoing
Continue to deliver the actions put in place to address the recommendations of the Information Commissioner's Office audit.	Head of Strategy, Information and Governance	Ongoing
Continue to hold regular meetings of the Constitution Committee to continue delivering the rolling review of the constitution during 2020/21.	Director of Legal and Governance Services	Ongoing – the committee met 5 times during 2020-21.

### Internal Audit during 2020/21

13. During 2020/21 Internal Audit undertook the following audits:

Audited System / Service	Assurance Opinion	Priority Actions		
		P1	P2	P3
Purchasing Cards	Reasonable Assurance	0	2	2
FoI and Direct Marketing	Reasonable Assurance	0	2	5
Debtors	Reasonable Assurance	0	4	2
Creditors	Substantial Assurance	0	0	4
Payroll	Substantial Assurance	0	0	3

Audited System / Service	Assurance Opinion	Priority Actions		
		P1	P2	P3
Reablement Service	Reasonable Assurance	0	2	0
Improvement Plan Governance	Substantial Assurance	0	1	0
Data Quality (Children's Services)	Substantial Assurance	0	0	1
Schools Themed Audit - Budgeting	Reasonable Assurance	0	0	4
Inclusion Strategy	Reasonable Assurance	0	2	4
Anti-Social Behaviour Management	Reasonable Assurance	0	2	3

Audited System / Service	Assurance Opinion	Priority Actions		
		P1	P2	P3
Use of CCTV	Draft report stage			
Governance Arrangements	Draft report stage			
Officer and Member Decision Making	Draft report stage			
Project Management – Boho X	Draft report stage			
Digitalisation	Draft report stage			
Pension Fund Administration	Draft report stage			
Schools Themed Audit – Pupil Premium	Draft report stage			
Main Accounting	Fieldwork in progress			
Cyber Security Awareness	Fieldwork in progress			
Council Tax & NNDR	Fieldwork in progress			
Council Tax Support & Benefits	Fieldwork in progress			
Social Care & Emergency Payments	Fieldwork in progress			
Pension Fund Investments	Fieldwork in progress			
	<b>Total:</b>	<b>0</b>	<b>15</b>	<b>28</b>

14. The opinions used by Internal Audit during 2020/21 are explained below:

- Substantial Assurance – A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
- Reasonable Assurance – There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
- Limited Assurance – Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
- No Assurance – Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

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

- Priority 1 (P1) – A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
- Priority 2 (P2) – A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
- Priority 3 (P3) – The system objectives are not exposed to significant risk, but the issue merits attention by management.

## **Corporate Affairs and Audit Committee during 2020/21**

16. Corporate Affairs and Audit Committee reviews the Council's arrangements for corporate governance and makes recommendations as appropriate to ensure good governance and continuous improvement.

17. The committee met nine times during 2020/21, and considered the following corporate governance related items:

- Appointment of the 151 officer;
- Staff turnover;
- Statement of Accounts;
- Annual report of the Head of Internal Audit;
- Internal Audit progress report;
- Teesside Pension Fund audit planning report;
- Counter Fraud policy review;
- COVID-19 Support to staff;
- Boho X governance and project management arrangements;
- Audit results reports on the Council and the Teesside Pension Fund;
- Procurement policies, practices and financial regulations compliance;
- Update on legal services response to the issues identified in the OFSTED inspection;
- Tees Transporter Bridge;
- Letters of representation – the Council and Teesside Pension Fund;
- Overview of decision-making during 2020;
- Internal Audit Consultation report;
- Health and Safety annual assurance report;
- Business Continuity annual assurance report;
- Performance and Risk Management annual assurance report;
- Lessons learnt – Croydon London Borough Council Section 114 Notice;
- Annual Review of the Local Code of Corporate Governance;
- Capital Strategy 2021-22;
- Certification of Claims and Returns – annual report 2019/20;
- Redmond Review; and
- Update on polling stations and other election processes.

## Overview and Scrutiny during 2020/21

18. Overview and Scrutiny Board (OSB) supported by a range of topic-specific panels, scrutinises Executive decisions and the performance of Council services. During 2020/21, scrutiny considered the following items that are relevant to corporate governance:

- quarterly reports on delivery of the Strategic Plan;
- the Executive Forward Work Programme;
- Middlesbrough Council COVID-19 Recovery plan and Terms of Reference;
- COVID-19 Update: Health, Adult Social Care and Public Health;
- Middlesbrough Council COVID-19 – Response and Test, Track and Trace;
- COVID-19 update Chief Executive;
- COVID-19 update: Education and Skills;
- COVID-19 and Finance update; and
- Middlesbrough Council's Response to COVID-19.

19. In addition, OSB considered two call-ins during 2019/20 relating to governance concerns, as set out below.

Executive Decision	Call in outcome	Executive final decision
Future accommodation	Referred back to the Executive because it was felt there was insufficient detail.	Recommendations of OSB were not endorsed.
Nunthorpe Grange Farm Disposal – Church Lane	Referred back to Executive because it was felt there was insufficient consultation.	Recommendations of OSB were not endorsed.

20. A call in of the decision on residual waste was also submitted but was not heard and the decision was subsequently reversed by Executive.

## Other governance related events during 2020/21

### COVID-19

21. Under the Civil Contingencies Act 2004 the Council is identified as a Category 1 responder, and as such has a legal duty to plan for and respond to emergencies in its area alongside other local responders, including the health sector and emergency services. It has legal duty to maintain the continuity of its business critical functions where it is possible to do so. It also has a duty to plan for recovery following an emergency incident.

22. The risk of a pandemic has been one of the highest on both the national and the Council's own risk register for a number of years. While locally the Council's response to the pandemic was robust, nationally it exposed weaknesses in national planning which also impacted locally.

23. During the period covered by this statement, those staff that could worked from home, adapting quickly to ensure the Council's range of critical services could continue to be delivered. New technologies were adopted to ensure democratic processes could resume remotely and some staff were diverted to new roles to support the pandemic response.

24. Business continuity plans were refreshed and additional plans developed to respond to the pandemic. Some corporate governance processes were varied to assist in the response to the pandemic. During 2020/21 the Chief Executive exercised authority delegated to him by the Mayor to make decisions of a policy, financial and operational nature in response to the COVID-19 emergency. Decisions made under this delegation were recorded and reported to Executive once it resumed remote meetings. As the pandemic progressed, officers worked to minimise the need to use this emergency delegation, taking decisions following business as usual processes where timescales allowed.

25. During the course of 2020/21 the Council administered and issued over £40m in business grants on behalf of the Government in response to the pandemic, and approximately £7m of support to households, providing assistance to 3,500 businesses and over 40,000 residents in some form.
26. When the town first entered lockdown in March 2020, new structures were put in place to support Middlesbrough's most vulnerable residents and these were stood back up in the two subsequent lockdowns.
27. The Council began to consider its recovery response to the pandemic during 2021/22 and recovery was adopted as one of the Council's nine strategic priorities in the Strategic Plan 2021-24.

### **Britain's Exit from the European Union**

28. During 2020/21 the transition period following Britain's exit from the European Union ended. From 31 December 2020 free movement of goods and people ended and has been replaced by a series of agreements. This may continue to impact on the way the Council operates internally and externally as well as impacting on the economic outlook for the town.

### **Misconduct in a public office**

29. During 2020/21, the then chair of the Council's Corporate Affairs and Audit Committee, Councillor John Rathmell was charged with misconduct in a public office in relation to a Community Council role, ultimately pleading guilty to that charge on 1 April 2021.
30. When this charge was initially made known, Councillor Rathmell was asked by the Monitoring Officer to stand down as Chair but refused to do so. Following his conviction, Councillor Rathmell was expelled from his political group and so automatically forfeited the position of Chair and a place on the Committee.
31. The Council is assured that Councillor Rathmell had no opportunity to improperly influence Middlesbrough Council expenditure or to act as a representative of the Council for financial or commercial purposes. While the Council was unable to take action to require an elected member to step down, it is exploring how to strengthen local arrangements in this area and actions are included within this document to address this.

### **Transporter Bridge**

32. During 2020/21 the Council's Corporate Affairs and Audit Committee received a presentation on the outcome of a whistleblowing investigation that was triggered in 2019. The investigation found 'case for considerable concern', meaning fundamental failures existed within the control environment that exposed the Council to unacceptable levels of risk.
33. The resulting internal audit report contained seven priority one actions to address the issues. The bridge remains closed to the public while its future operating and associated works are being determined, so mitigating health and safety risks. All actions from the internal audit are expected to be completed by March 2022.

### **Post-OFSTED improvement journey**

34. 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:

<b>Judgement</b>	<b>Grade</b>
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

35. 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.

36. A [report from the Commissioner](#) released in June 2020 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. Progress since that time has remained positive.

Reference:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/889009/Middlesbrough\\_Commissioner\\_s\\_Report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/889009/Middlesbrough_Commissioner_s_Report.pdf)

### **Liverpool City Council Best Value report**

37. In December 2020 HM Government commissioned a statutory inspection of Liverpool City Council (LCC) following investigations by Merseyside Police which resulted in a number of arrests on suspicion of fraud, bribery, corruption and misconduct in public office with significant connections to LCC. The findings of the inspection commissioned by the Government were subsequently published within a [Best Value report](#).

Reference:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/976197/Liverpool\\_Best\\_Value\\_inspection\\_report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/976197/Liverpool_Best_Value_inspection_report.pdf)

38. In line with the Council's commitment to learning lessons from governance failings elsewhere, a self-assessment has been completed against the recommendations arising from the inspection and resulting actions embedded within this statement where necessary.

### **Middlesbrough Development Company activity during 2020/21**

39. Middlesbrough Development Company (MDC) is a local authority trading wholly-owned company limited by shares, with the Council as the sole shareholder.
40. During 2020/21 MDC met monthly. From January 2021, key decisions taken by the company have been published at [www.middlesbroughdevelopmentcompany.co.uk](http://www.middlesbroughdevelopmentcompany.co.uk).
41. The Council's Section 151 Officer and Monitoring Officer began to receive all agendas, reports and minutes for the company during 2020/21, in line with the planned action from the 2019/20 Annual Governance Statement. Information on decisions made will also be reflected within the quarterly capital monitoring report to elected members.

### **Surveillance**

42. The Council reviewed its policies relating to overt and covert surveillance during the year and identified a number of areas in which controls should be strengthened. An overarching Surveillance Policy, which will cover CCTV, RIPA, non-RIPA covert surveillance and the surveillance of employees will be brought forward for Executive approval during 2021/22. Approval of this policy will entail a number of procedural changes within CCTV (addressing the findings of the internal audit of CCTV undertaken during the year) and non-RIPA covert surveillance practice. An annual report on surveillance will be presented to Corporate Affairs and Audit Committee from 2022.

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

### **Self-assessment**

43. The Council has completed a position statement against its Code of Corporate Governance for the 2020/21 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.
44. The detailed position statement is at Appendix 2 and is reflective of governance risk levels as outlined in the Council's strategic and directorate risk registers.
45. In summary, the Council considers that it continues to demonstrate generally sound governance, however it is clear that remain some control weaknesses to be addressed. In addition, a number of actions have also rolled over to 2021/22, having been delayed as a result of the impact of the COVID-19 pandemic on the Council.

### **Internal Audit opinion**

46. The work of internal audit is governed by the Public Sector Internal Audit Standards (PSIAS) and the Council's audit charter. These require the Head of Internal Audit to bring an annual report to the Corporate Affairs and Audit Committee. The report must include an opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control.
47. The overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating at the Council is that it provides **Reasonable Assurance**. No reliance was placed on the work of other assurance providers in reaching this opinion.
48. In giving this opinion, attention is drawn to the following significant control weakness which is considered relevant to the preparation of the 2020/21 Annual Governance Statement.
49. An audit of the CCTV schemes operated across the Council found that there is no central register available that identifies the location of all CCTV camera equipment across the Council. Therefore, the Council is unable to confirm that all CCTV schemes are compliant with the Surveillance Camera Code of Practice and the relevant legislation.
50. The overall opinion given above is based on work that has been undertaken directly by internal audit, and on cumulative knowledge gained through our ongoing liaison and planning with officers. However, in giving the opinion, we would note that COVID-19 has significantly affected the Council over the last year, with a wide ranging impact on business operations and controls. While the work of internal audit is directed to the areas that are most at risk, or provide most value for the Council, it is not possible to conclude on the full extent of the impact of COVID-19 on the Council's operations.

### **External Audit opinion**

51. The opinion of the Council's External Auditor will be provided to Corporate Audit and Affairs Committee alongside the final version of this document. The External Auditor has commented on this draft document.

### **Conclusion**

52. This Annual Governance Statement demonstrates that the Council has in place a generally sound system of governance, with some control weaknesses to be addressed.



53. The information set out in this statement has been used to identify a number of actions for 2020/21 to ensure continuous improvement in the Council's corporate governance, which are summarised at Appendix 3.
54. The Council is committed to delivering these improvements during the year, and progress against actions will be monitored by the Corporate Governance Board that is in place to ensure ongoing compliance with the Council's Local Code of Corporate Governance.

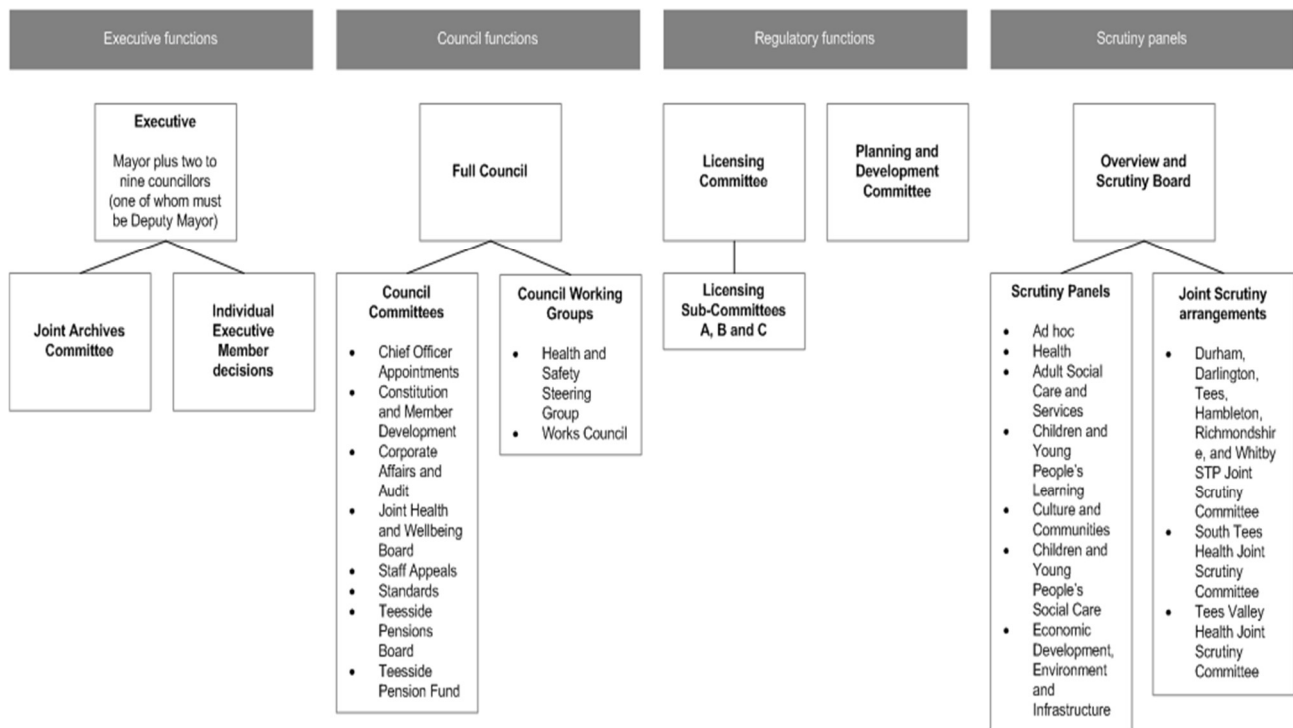
Signed on behalf of Middlesbrough Council

Andy Preston  
Elected Mayor of Middlesbrough  
Xx/xx/xx

Tony Parkinson  
Chief Executive  
Xx/xx/xx

Ian Wright  
Director of Finance  
(Section 151 Officer)  
Xx/xx/xx

# Appendix 1: Middlesbrough Council Committee Structure 2020/21



## **Appendix 2: Position statement against the Council’s Code of Corporate Governance**

<b>Local Code of Corporate Governance</b>		<b>Self-assessment</b>	
<b>Principle / supporting principles</b>	<b>To meet these requirements, the Council will:</b>	<b>Evidence of compliance with this principle</b>	<b>Action(s) identified</b>
<p>Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.</p> <ul style="list-style-type: none"> <li>Behaving with integrity</li> <li>Demonstrating strong commitment to ethical values</li> <li>Respecting the rule of law</li> </ul>	<ul style="list-style-type: none"> <li>Work diligently and with integrity to achieve the Elected Mayor’s Priorities for Middlesbrough.</li> <li>Clearly document expected behaviours, and decision-making processes, for members and officers, and regularly review these.</li> <li>Effectively communicate expected behaviours to members and officers, and provide appropriate training on ethical behaviour.</li> <li>Ensure members, statutory officers, other key post holders are able and supported to fulfil their duties and meet their responsibilities.</li> <li>Ensure compliance by maintaining effective audit committee, internal audit and scrutiny functions, and standards and disciplinary processes.</li> </ul>	<ul style="list-style-type: none"> <li>Constitution and supporting documentation clearly set out expected behaviours and decision-making processes, including member and officer relationships, codes of conduct, financial procedure rules and schemes of delegation. Constitution updated during 2020 to reflect COVID impacts to ensure meetings continued to be conducted effectively and in line with best practice. Additional guidance was issued to support this.</li> <li>Corporate values (one of which is integrity) in place and embedded within employee recruitment and selection, induction, appraisal and development. They were refreshed during 2020/21.</li> <li>Comprehensive member induction process and member development programme was delivered for the first year of the current term of office (19/20).</li> <li>Member and officer declarations of interests registers in place, and requested to be updated annually but there is a requirement that Members notify the Monitoring Officer electronically of any changes through the Council’s committee management system, Modern.gov.</li> <li>Training for members on the code of conduct in place with a high level of compliance, and with all members</li> </ul>	<ul style="list-style-type: none"> <li>Continue to develop the officer scheme of delegation as part of work to further strengthen then constitution decision making governance.</li> <li>Implement a case management tool to complement the revised member enquiries process for those Councillors who wish to use it.</li> <li>Deliver training to members on use of social media.</li> <li>Agree a revised code of conduct for members and deliver training on it to all members, including training on ethics.</li> <li>Complete mandatory refresher training on the officer and member protocol within Middlesbrough Council’s constitution for all members and senior officers.</li> <li>Procurement practice to be revised as required once government regulations / legislation issued in relation to general and NHS procurement changes post UK exit from the European Union.</li> <li>Develop a Member code of conduct protocol for licencing matters to complement the planning code of conduct already in place for that quasi-judicial function.</li> <li>Deliver refresher training for officers to remind them of their obligations under the Officer code of conduct during 2021/22.</li> </ul>

		<p>individually signed up to the code. The action to deliver refreshed training in 20/21 has been slipped to 2021/22 as a result of COVID and its impact on capacity to deliver.</p> <ul style="list-style-type: none"> <li>• Comprehensive member handbook in place to provide guidance and signpost support, and members' enquiries service in place to assist with casework and data requests.</li> <li>• Statutory officers clearly identified and appropriately supported. The Council complies with the CIPFA statement on the role of the Chief Financial Officer (2016).</li> <li>• Effective Corporate Affairs and Audit Committee, internal audit and scrutiny arrangements in place, with members trained appropriately.</li> <li>• Policies in place for counter-fraud, bribery and corruption; complaints; procurement; and whistleblowing, and regularly reviewed.</li> <li>• Member standards arrangements and employee disciplinary procedures in place and updated regularly.</li> <li>• Proactive approach to equality and inclusion in place, engaging staff, acting on intelligence and reporting progress. The Council has engaged staff online (and offline for staff with no ICT access) during Covid using a variety of methods to support maintenance of a positive, inclusive culture.</li> </ul>	<ul style="list-style-type: none"> <li>• Member refresher training on the code of conduct will include information on hospitality requirements and registers of interests</li> </ul>
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Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Action(s) identified
<p>Ensuring openness and comprehensive stakeholder engagement.</p> <ul style="list-style-type: none"> <li>• Openness</li> <li>• Engaging comprehensively with institutional stakeholders</li> <li>• Engaging with individual citizens and service users effectively</li> </ul>	<ul style="list-style-type: none"> <li>• Document and operate a culture of openness and transparency within the organisation.</li> <li>• Maintain a culture of accountability, so that members and officers understand what they are accountable for and to whom they are accountable.</li> <li>• Consult appropriately with stakeholders on the development of its budget, key plans and service development.</li> <li>• Maintain effective decision making processes, ensuring that reports to decision makers clearly set out stakeholder views where relevant.</li> <li>• Publish all Executive and Committee reports and decision papers, unless there is a legitimate need to preserve confidentiality on the basis of the statutory tests.</li> <li>• Publish on its website information on the Council's strategies, plans and finances as well as on outcomes, achievements and challenges.</li> </ul>	<ul style="list-style-type: none"> <li>• Stated commitments to transparency within the Strategic Plan and supporting strategies such as the Information Strategy and annual SIRO Report.</li> <li>• Constitution and supporting documentation clearly set out accountabilities and delegated authorities.</li> <li>• Consultation on Strategic Plan priorities; and annual budget consultation in place.</li> <li>• Corporate consultation and impact assessment policy in place (refreshed during 2020/21), ensuring that stakeholders (including third party providers) are engaged appropriately and views considered in decision making.</li> <li>• Committee diary planner published on an annual basis, approved by members and accessible via the Council's website.</li> <li>• Executive Forward Work Programme in place, setting out planned decisions in the coming four months on the online committee system.</li> <li>• All public Executive and Committee agendas, papers and minutes are published via the Council's website. Officer-delegated decisions are also published.</li> <li>• Virtual meeting solutions in place for Councillor meetings while Covid-19 restrictions are in force to ensure transparency around decision-making.</li> <li>• Key strategies and plans are clearly published on the Council's website /</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to implement a scheme of sub-delegations where appropriate to further improve governance around officer delegated decisions.</li> <li>• Undertake a review of digital engagement capabilities post Covid-19 including the Council's website to meet appetite for digital engagement.</li> <li>• Agree a revised code of conduct for members and deliver training on it to all members, including training on ethics.</li> <li>• Member refresher training on the code of conduct will include information on hospitality requirements and registers of interests.</li> <li>• Deliver refresher training for officers to remind them of their obligations under the Officer code of conduct during 2021/22.</li> </ul>

		<p>open data site, and regularly updated.</p> <ul style="list-style-type: none"> <li>• Information on performance and expenditure sent to all households annually as part of Council Tax billing.</li> <li>• The Council complies with Open Data requirements, publishing statutorily required and other datasets such as the Freedom of Information Act publication scheme on its open data site. The Council proactively seeks to publish information for which there is a demand.</li> <li>• Plans with the digital and marketing and communications strategies to advance in the current approach.</li> </ul>	
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Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Action(s) identified
<p>Defining outcomes in terms of sustainable economic, social and environmental benefits.</p> <ul style="list-style-type: none"> <li>Defining outcomes</li> <li>Sustainable economic, social and environmental benefits</li> </ul>	<ul style="list-style-type: none"> <li>Clearly set out its contribution to delivery of the Mayor's priorities for Middlesbrough, and use this as the basis for its overall strategy, planning and other decisions.</li> <li>Define outcomes through robust consideration of appropriate evidence bases, such as the Joint Strategic Needs Assessment.</li> <li>Ensure that it delivers defined outcomes on a sustainable basis within available resources.</li> <li>Effectively identify and manage risks to the achievement of targeted outcomes.</li> <li>Manage customer expectations effectively when determining priorities to make best use of resources, and ensure fair access to services.</li> </ul>	<ul style="list-style-type: none"> <li>Strategic Plan and Directorate Priorities Plans clearly outline how the Council plans to deliver the Mayor's priorities for Middlesbrough, including key measures of success.</li> <li>Strategic Plan is part of the Council's policy framework – reports to decision makers set out how recommendations would impact on strategic objectives if approved.</li> <li>Joint Strategic Needs Assessment and supporting assessments in place for children and young people – the children and young people's assessment was refreshed during 2017/18. Market position statements use needs assessments to inform commissioning priorities.</li> <li>Corporate planning cycle considers targeted outcomes and annual budgeting over the medium-term within the context of the Council's Medium-Term Financial Plan and Capital Investment Strategy.</li> <li>Performance, Risk and Programme and Project Management frameworks provide for regularly tracking of progress and addressing issues and risks, with reporting to members and senior managers as appropriate.</li> <li>Consultation on Strategic Plan priorities; and annual budget consultation in place.</li> <li>Customer Strategy and Charter in place, identifying what customers can expect from the Council, alongside specific service eligibility criteria.</li> </ul>	<ul style="list-style-type: none"> <li>Refresh the JSNA for children and young people this year to refresh data and complete the Adults and Older persons sections.</li> <li>Review the decision making of Middlesbrough Development Company to assess compliance with best practice in relation to asset disposals and acquisitions during 2020/21</li> </ul>



Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Action(s) identified
<p>Determining the interventions necessary to optimise the achievement of the intended outcomes.</p> <ul style="list-style-type: none"> <li>Determining interventions</li> <li>Planning interventions</li> <li>Optimising achievement of intended outcomes</li> </ul>	<ul style="list-style-type: none"> <li>Ensure reports to decision makers on services are fair, balanced, and analyse options and the risks associated with those options, to ensure Best Value is achieved.</li> <li>Ensure that external and internal stakeholders are engaged with when the Council is determining how services should be planned and delivered, and the outcome of consultations is considered when decisions are made.</li> <li>Ensure achievement of social value through service planning and commissioning.</li> <li>Ensure that it has clear and robust planning and control cycles for its strategic and operational plans, priorities and targets.</li> <li>Determine appropriate KPIs to demonstrate service and project performance, and provide members and senior managers with timely updates on these.</li> <li>Ensure medium and long term resource planning is realistic, sustainable and inclusive.</li> <li>Prepare budgets that are aligned to the strategic objectives of the organisation and its MTFP.</li> </ul>	<ul style="list-style-type: none"> <li>Reports to decision makers developed using a standard format to ensure effective, fair, and evidence-based decision making.</li> <li>Corporate consultation and impact assessment policy in place, ensuring that stakeholders engaged appropriately and views considered in decision making.</li> <li>Strategic Procurement Strategy in place. Contract management framework now also in place.</li> <li>'How to do Business with Middlesbrough Council' guidance for providers in place.</li> <li>Guide to social value in procurement and commissioning in place.</li> <li>Annual reports to Corporate Affairs and Audit committee on disposals on the grounds of social value provided where appropriate.</li> <li>Corporate planning cycle considers targeted outcomes and annual budgeting over the medium-term within the context of the Council's Medium-Term Financial Plan and capital Investment Strategy.</li> <li>Performance, Risk and Programme and Project Management frameworks provide for regularly tracking of progress against KPIs and addressing issues and risks, with reporting to members and senior managers as appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>Continue to implement a scheme of sub-delegations where appropriate to further improve governance around officer delegated decisions.</li> <li>Transition to OPEN, the NEPO e-procurement system that is being put in place for the North East, replacing the current contract management framework with an end to end product once fully rollout. Rollout to commence from March 2022.</li> <li>Review the council's report committee formats and supporting processes to ensure it continues to be robust and the opportunity is taken to learn lessons from Best Value reports completed by government on the governance processes of other councils.</li> <li>Review the decision making of Middlesbrough Development Company to assess compliance with best practice in relation to asset disposals and acquisitions during 2020/21</li> </ul>

Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Action(s) identified
<p>Developing the Council's capacity, including the capability of its leadership and the individuals within it.</p> <ul style="list-style-type: none"> <li>Developing the Council's capacity</li> <li>Developing the capability of the Council's leadership and other individuals</li> </ul>	<ul style="list-style-type: none"> <li>Regularly review operations to ensure that it is continuing to deliver services that are effective, including the use of benchmarking and sectoral research.</li> <li>Work collaboratively and in partnerships where added value can be achieved.</li> <li>Maintain an effective approach to organisational development to ensure continued capacity and capability to deliver.</li> <li>Clearly define roles, responsibilities and terms of engagement for members and employees.</li> <li>Maintain and regularly review its schemes of delegations that outline the types of decisions that are delegated and those that are reserved for collective decision-making.</li> <li>Develop the capabilities of members and senior management to achieve effective shared leadership.</li> <li>Ensure there are appropriate structures in place to encourage public participation.</li> <li>Ensure that systems are in place to ensure that members and staff can be both held to account for performance, and supported as appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>Performance Management Policy set out how corporate performance will be managed.</li> <li>Directorates review performance internally. Business intelligence dashboards are being implemented to facilitate this.</li> <li>Range of benchmarking and other tools are used within Directorates to contextual performance and drive improvement.</li> <li>Horizon scanning is undertaken by LMT on a bi-annual basis, aligned with consideration of risk.</li> <li>Wider Leadership Management Team in place to enable broader consideration of key policy issues.</li> <li>Key strategic partnerships in place, such as the South Tees Health and Wellbeing Board.</li> <li>The organisational development ambitions of the Council are embedded within the Strategic Plan which clearly outlines corporate approach to organisational development.</li> <li>Constitution and supporting documentation clearly set out member and officer role profiles, relationship protocol and schemes of delegation.</li> <li>Corporate consultation policy and online consultation portal in place.</li> <li>Plans with the digital and marketing and communications strategies to advance in the current approach.</li> <li>Processes in place for public involvement in determining scrutiny priorities, for the public to petition Council and</li> </ul>	<ul style="list-style-type: none"> <li>Continue to implement a scheme of sub-delegations where appropriate to further improve governance around officer delegated decisions.</li> <li>Continue to deliver the OFSTED Improvement plan, in particular those actions that have been identified to strengthen leadership within Children's Safeguarding Services.</li> <li>Launch the revised Management Framework, to ensure managers understand how they are expected to act to be in line with the refreshed organisation's values.</li> <li>Refresh training materials on the Council's OD system to align training with compliance with the organisation's values.</li> <li>Refresher senior leadership development work programme delivered by the LGA to ensure officer and member roles continue to be understood and adhered to.</li> <li>Launch an expanded 360 project to cover a wider cohort of managers.</li> </ul>

		<p>to register questions to be considered by full Council.</p> <ul style="list-style-type: none"><li>• Clear employee appraisal and development process and member development programme in place.</li></ul>	
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Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Action(s) identified
<p>Managing risks and performance through robust internal control and strong public financial management.</p> <ul style="list-style-type: none"> <li>Managing risk</li> <li>Managing performance</li> <li>Robust internal control</li> <li>Managing data</li> <li>Strong public financial management</li> </ul>	<ul style="list-style-type: none"> <li>Embed a proportionate approach to risk management within all activities, ensure that progress is reviewed regularly and that risk is considered as part of decision making.</li> <li>Ensure effective performance management of service delivery, and provide members and senior managers with timely updates on service performance and progress towards outcomes.</li> <li>Ensure reports to decision makers on services are fair, balanced, and analyse options and the risks associated with those options, to ensure Best Value is achieved.</li> <li>Ensure effective, member-led scrutiny is in place that provides constructive challenge and debate on objectives and policies before, during and after decisions are taken.</li> <li>Ensure an effective, risk-led Internal Audit service is in place to provide assurance on the overall adequacy and effectiveness of the Council's governance arrangements.</li> <li>Ensure effective counter fraud and anti-corruption policies and arrangements are in place.</li> <li>Ensure effective internal control arrangements exist for sound financial management.</li> <li>Maintain an effective audit committee function.</li> <li>Ensure effective arrangements are in place to collect, store, use and share data, including processes to</li> </ul>	<ul style="list-style-type: none"> <li>Performance Management; Risk and Opportunity Management; and Programme and Project Management policies provide for regularly tracking of progress and addressing issues and risks, with reporting to members and senior managers as appropriate. Risk is a standard section in reports to decision makers.</li> <li>Reports to decision makers developed using a standard format to ensure effective, fair, and evidence-based decision making.</li> <li>Wide-ranging annual scrutiny programme in place, examining policy and performance.</li> <li>Urgent decision process and records in place and reported to Council annually.</li> <li>Effective internal audit arrangement in place, utilising the Council's plans and risk registers to identify priorities.</li> <li>Policy in place for counter-fraud, bribery and corruption; complaints; procurement; and whistleblowing, and regularly reviewed. Money Laundering Policy.</li> <li>Effective Corporate Affairs and Audit committee in place clear terms of reference and a full and trained membership.</li> <li>Information Strategy in place to provide systematic approach to information governance, including data protection and data quality.</li> <li>Robust financial management procedures in place</li> </ul>	<ul style="list-style-type: none"> <li>Continue to implement a scheme of sub-delegations where appropriate to further improve governance around officer delegated decisions.</li> <li>Transition to OPEN, the NEPO e-procurement system that is being put in place for the North East, replacing the current contract management framework with an end to end product once fully rollout. Rollout to commence from March 2022.</li> <li>Review the Council's approach to risk and insurance as part of consideration for future insurance options as part of insurance contract considerations.</li> <li>Review the decision making of Middlesbrough Development Company to assess compliance with best practice in relation to asset disposals and acquisitions during 2020/21.</li> <li>Develop a five year capital investment strategy around highways infrastructure that will inform the MTFP.</li> </ul>

	<p>safeguard personal data.</p> <ul style="list-style-type: none"> <li>• Put in place arrangements to ensure that data used to support decision-making is accurate and clear.</li> <li>• Ensure financial management arrangements support both long term outcome delivery and day-to-day operations.</li> </ul>	<p>relating to medium-term financial planning, budget setting, procurement and contract management.</p> <ul style="list-style-type: none"> <li>• Internal audit opinion is that overall the Council has a reasonable overall control environment.</li> </ul>	
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Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Action(s) identified
<p>Implementing good practices in transparency, reporting, and audit to deliver effective accountability.</p> <ul style="list-style-type: none"> <li>Implementing good practice in transparency</li> <li>Implementing good practices in reporting</li> <li>Assurance and effective accountability</li> </ul>	<ul style="list-style-type: none"> <li>Provide reports in plain English wherever possible, ensuring that they are easy to access and interrogate and balancing transparency requirements with clarity.</li> <li>Report regularly on performance, delivery of value for money and stewardship of resources.</li> <li>Report on compliance with good governance principles within its Annual Governance Statement, including an action plan for continued improvement.</li> <li>Ensure compliance with good governance principles extends to its partnership arrangements.</li> <li>Ensure that recommendations made by external audit are addressed.</li> <li>Ensure that the internal audit service has direct access to members to enable it to provide assurance with regard to governance arrangements.</li> <li>Welcome and positively engage with peer challenges, reviews and inspections of its services.</li> </ul>	<ul style="list-style-type: none"> <li>Standard template for reports to decision makers designed to advance proposition logically and simply, and reduce duplication of information. Training for report writers ongoing, including expectations around use of plain English.</li> <li>Quarterly results reports to Executive and scrutiny covering performance, financial and risk updates.</li> <li>Annual Governance Statement complying with the standard set out in the Local Code of Corporate Governance.</li> <li>Governance arrangements in place for key strategic partnerships, such as the South Tees Health and Wellbeing Board, with improvement activity underway.</li> <li>Recommendations made by external audit are addressed as a matter of priority through the most appropriate route.</li> <li>Internal audit reports its plans, progress and findings regularly to the audit committee. Agreed actions from internal audit are tracked by DMTs until completion.</li> <li>Council proactively seeks peer challenge, publishing findings and responses and commissioning follow-ups. There are positive relationships with statutory inspectorates and regulators.</li> </ul>	<ul style="list-style-type: none"> <li>Undertake population of the central Partnerships Register.</li> <li>Review the decision making of Middlesbrough Development Company to assess compliance with best practice in relation to asset disposals and acquisitions during 2020/21.</li> </ul>



# 7. Glossary of Terms



Middlesbrough 5k Run

## Glossary of Terms

### **Accounting Period**

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

### **Accrual**

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

### **Accrued Benefits**

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

### **Actuarial Gains and Losses**

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

### **Actuarial Valuation**

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

### **Accumulated Absences Account**

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

### **Admitted Bodies**

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

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

### **Annual Governance Statement**

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

### **Assets Held for Sale**

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

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

### **Assets Under Construction**

At any time some projects will be incomplete and will need to be classified as 'fixed assets under construction. It is usual for assets under construction to be recognised but recorded as non-operational until they are available for 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 lessee 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