

Foreword From The Chief Finance Officer Paul Slocombe

Middlesbrough Council's financial statements for 2013/2014, have been prepared in accordance with the standard format for local authority accounts, recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) for the Statement of Accounts in 2013/2014, as prescribed by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/2014 (the Code), based on International Financial Reporting Standards. The Code is updated annually and specifies the accounting principles and practices required to prepare a Statement of Accounts, which present a true and fair view of the position of a local authority.

Middlesbrough Council is a large and diverse organisation and the information contained in these accounts is technical and complex. The aim of this foreword, therefore, is to provide narrative context to the accounts by briefly explaining the main sections and presenting a summary of the Council's financial position and performance for the year and its prospects for future years.

Background to the Council

Middlesbrough Council is a unitary local authority serving the people of Middlesbrough, and was created following the abolition of Cleveland County Council in 1996 alongside the three adjacent unitaries of Hartlepool, Redcar and Cleveland and Stockton on Tees. It is the ninth smallest unitary authority in England by area.

The Council acts as Middlesbrough's community leader, working with local residents and 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 has an array of statutory responsibilities and powers, and commissions or delivers a wide range of public services, funded in the main by government grants, council tax and business rates. It is one of the largest employers in the Tees Valley area, providing work for more than 3,500 people.

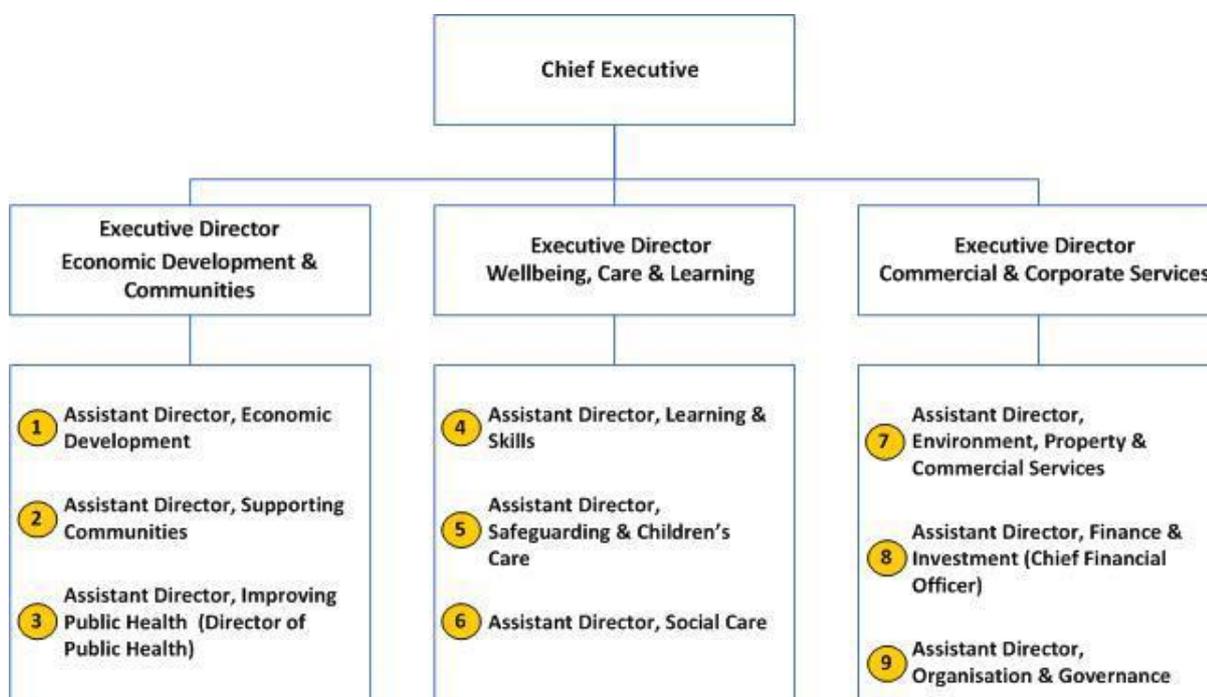
For the period of these accounts, the Council had a Mayoral style of government, which comprised the Mayor with a mixed party Executive of six Members (including the Deputy Mayor) who each have responsibility for looking after an area of the Council's business. To support the work of the Executive and also to hold it to account there are a number of Scrutiny Committees.

For operational purposes and to support the Executive, Committees and the elected Members, Council Services are split into a number of directorates, each headed by a Director with responsibility for a range of services, all reporting to the Chief Executive. During 2013/14, Council Services were split into three Directorates as set out below:

- **Wellbeing, Care and Learning** (includes Youth Services, Children's Social Care, Corporate Parenting, Family Support, Adoption & Foster Care, and Looked after Children, Schools, Early Years provision including Children Centres, Adult Learning, Commissioned Services, Assessment & Care Management, Supporting People, Day Care, Domiciliary Care and Personalised Care).

- **Neighbourhoods and Communities** - (includes, Housing Strategy, Economic Development, Employment Services, Planning & Building Control, Highways & Transport, Parking, Asset Management, Commercial Estates, Culture, Tourism Libraries, Sports, Parks & Outdoor Recreation, Community Safety, Environmental Health, Environmental Services, Licensing & Enforcement and Cemeteries & Crematoria)
- **Director of Transformation** (includes Finance, Internal Audit, Strategic Procurement and Contract compliance, Insurance, Benefits, Council Tax/NNDR, Capital, Pensions, Loans & Investments, Legal Services, Human Resources, Policy Making, Risk Management and IT)

It should be noted that as part of the Council’s ongoing Change Programme, with effect from 1st June 2014 the Council’s senior management structure will change as set out in the table below



The Vision for Middlesbrough

The Council reviewed its strategic priorities for Middlesbrough in 2012 and published them in the Middlesbrough 2020, Our Vision document. This sets out a vision for Middlesbrough to be ‘the place to live, work and visit’ and is supported by three strategic aims:

- a town that is clean, safe and healthy;
- a learning town, in which families and communities thrive; and
- a town that continues to transform.

The vision has subsequently been adopted by the Council’s partners and in its role as a community leader the Council will work with communities and its partners to achieve the Vision. In addition, the Council will work with its partners in Tees Valley Unlimited to

progress the Tees Valley City Deal, which will boost process industries on Teesside, support the creation of 3,500 jobs and unlock £28 million of private sector investment.

The Council's Contribution to the Vision

The Council has identified **three** strategic objectives and **nine** supporting outcomes that together will demonstrate its contribution to the achievement of the Mayor's Vision.

Improving Community and Economic Resilience by;

1. Securing economic development, physical regeneration and transport to create jobs and housing such that the mix of jobs, skills and quality of housing in the town is complementary.
2. Providing services and support to communities such that people have more fulfilling lives, feel safe and their need for support services reduces.
3. Achieving longer and healthier lives, reducing health inequalities and protecting the local population from environmental hazards and incidents.

Providing Community and Economic Support by;

4. Promoting effective learning for children and adults such that residents fulfil their potential, attainment improves and people have the requisite skills to secure employment.
5. Protecting and safeguarding vulnerable adults and children and, wherever possible, seek to enable a safe environment that reduces dependency on services.
6. Providing support to help families and adults in need and maximise their independence such that dependency on services reduces.

Providing Commercial Strength, Organisational Support and Development that helps deliver service objectives by;

7. Providing, managing, maintaining and enhancing highways, streets, parks, open spaces, leisure facilities, public buildings and commercial properties such that the quality of place supports the needs of residents, visitors and business.
8. Ensuring that the financial assets and services and the physical assets of the Council support services in meeting needs whilst ensuring corporate financial probity.
9. Ensuring that the democratic and governance processes of the Council are robust and that our staff and organisational support meets the needs of the services.

In future the Council must focus its efforts on optimising its contribution to the Vision. This will involve:

- aligning its senior management structure and service portfolios to the above outcomes;
- implementing a new operating model focused on the commissioning of outcomes, whilst continuing to ensure the social, economic and environmental wellbeing of the town;
- delivering a comprehensive, three-year Change Programme to ensure that the Council meets its financial challenges and optimizes its contribution to the Mayor's Vision.

The Council will continue to focus on delivering excellent financial management in order to ensure that the wider organisation is best placed to deliver the core strategic aims of the Council.

Annual Statement of Accounts

The Statement of Accounts comprises various sections and statements, which are briefly explained below:

Foreword - this provides information on the format of this Statement of Accounts as well as a review of the financial position of the Council for the financial year 2013/2014.

Statement of Responsibilities – this details the responsibilities of the Council and the Director of Strategic Resources, concerning the Council's financial affairs and the Statement of Accounts.

Independent Auditor's Report to the Council – the external auditor, Deloitte LLP, prepare this report on completion of the annual audit.

Annual Governance Statement – the Council is required to carry out an annual review of the effectiveness of the system of internal control and to include a status report with the Statement of Accounts. The Statement explains how the Council has complied with the Code of Corporate Governance during 2013/2014.

The **Main Accounting Statements** comprise:

- The **Comprehensive Income and Expenditure Statement** – this is fundamental to the understanding of a Council's activities. It brings together all of the functions of the Council and summarises all of the resources that the Council has generated, consumed or set aside in providing services during the year.
- The **Balance Sheet** – shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.
- 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 other reserves. The surplus or (deficit) on the provision of services is different from the statutory amounts required to be charged to the General Fund for council tax setting purposes.
- The **Cash Flow Statement** – this summarises the changes in cash and cash equivalents of the Council during the reporting period. Cash flows are split 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 Main Statements provide supporting and explanatory information and are fundamentally important in the presentation of a true and fair view.

Pension Fund Accounts – the Teesside Pension Fund is administered by the Council; however, the Pension Fund has to be completely separate from the Council's own finances. This statement is an extract from the Teesside Pension Fund Annual Report and summarises the financial position of the Pension Fund, including all income and expenditure for 2013/2014, assets, and liabilities as at 31 March 2014.

A **Glossary** to the Statement of Accounts is also included to help to make the document more understandable to the reader.

Financial Report for 2013/2014

Setting the Revenue Budget for 2013/2014

In preparing the 2013/2014 revenue budget and medium term financial plan the Council adopted the following principles and statements:

- To ensure that resources are directed to Council priorities.
- To maximise the efficient, effective and economic use of resources, in conjunction with partners where appropriate.
- To keep Council Tax increases to a minimum.
- To maintain appropriate balances, central provisions and earmarked reserves.
- To make services fully accountable for their own budgets and spending, and enforce a policy of no unauthorised overspending within service areas.
- To maintain appropriate medium term budget planning and monitoring processes, ensuring known commitments are provided for and budgets are set in real terms with the effect on service delivery clearly explained.

The key inflation assumptions for 2013/2014 were a pay award of 1% and an increase of 2.5% on running costs. An additional inflationary provision was made for the assessed impact of increased prices for energy and fuel of £0.2 million, together with specific contract inflation. Income from fees and charges was assumed to increase on average by 1.5%. In setting the 2013/2014 budget, service budget reductions of approximately £12.7 million were identified.

The Council approved additional service spending on:

- £1.820 million for care for children and young people
- £1.250 million for care for older people and vulnerable adults
- £0.680 million for environment services
- £0.500 million for other services

A Council Tax increase of 1.99% was approved by the Council. The Council decided not to accept the Council Tax Freeze Grant from central Government. It was estimated that if the Council accepted the one year grant then additional reductions to services of £12 million would be required over the next ten years.

On the 4th March 2013 the Council set its revenue budget for 2013/2014 at £140.402million to be funded as follows:-

	£ million
Revenue Support Grant from the Government	60.427
Share of National Business Rates Proceeds	39.716
Council Tax payers for 2013/2014	40.259
Total net budget in 2013/2014	140.402

THE 2013/14 REVENUE BUDGET - OUTTURN REPORT

Service Area	Budget	Outturn	Variance
	£ ' 000s	£ ' 000s	£ ' 000s
Wellbeing, Care & Learning	77,228	76,312	(916)
Neighbourhoods and Communities	33,944	32,872	(1,072)
Central Services	21,448	21,084	(364)
Corporate Costs	7,782	10,134	2,352
Net Service Expenditure as reported in note 40	140,402	140,402	0

The Council has achieved a balanced budget for 2013/14 after making a contribution of £1,584 million to the Change Programme Reserve. The Change Programme Review is ongoing and the Council needs to invest in service reconfiguration to meet the challenges presented by the unprecedented public spending cuts, increasing costs and growth in demand for services and to continue to deliver the Mayor's Vision for the town.

All services made significant net savings during 2013/14 on staffing and running expenses some of which related to the early achievement of 2014/15 savings targets. Details of the savings generated in 2013/14 from early achievement of 2014/15 targets are set out in the table below:

Service Area	£ ' 000s
Wellbeing, Care & Learning	1,026
Neighbourhoods and Communities	717
Central Services	790
Total	2,533

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

Wellbeing, Care & Learning	Variance
	£ ' 000s
Increased Education Service grant income	(428)
Intergrated Working 0 - 19 service restructure	(1,095)
Additional Troubled Families income	(152)
Increased Agency Fostering and Residential Schools costs	1,951
Increased In-House Fostering costs	104
Reduction in payments to childcare providers	(60)
Youth Offending contract savings	(322)
Additional Community Support Fund income	(157)
Schools budget savings	(127)
Staffing costs savings - CFL	(367)
Staffing cost savings - Social Care	(1,114)
Supplies & Services savings - Social Care	(418)
Tees Community Equipment Service	(103)
Supporting People savings	(280)
Increase Demand cost pressures - Social Care	1,533
Other	119
Total	(916)

Neighbourhoods and Communities	Variance
	£ ' 000s
Staffing cost savings - Regeneration	(223)
Cultural VAT exemption saving	(75)
Additional Development Control income	(206)
Local Development Framework saving	(86)
Additional Design fee income	(37)
Increased Income - Sports and Leisure	0
Property closure savings target shortfall	356
Staffing cost savings - Environment	(716)
Additional Building Maintenance income	(86)
Waste Disposal cost savings	(281)
Cargo Fleet savings target shortfall	228
Community Buildings savings target shortfall	75
Additional Fleet Maintenance costs	82
Other	(103)
Total	(1,072)

Central Services	Variance
	£ ' 000s
Staffing cost savings - Legal & Democratic Services	(283)
Staffing cost savings - Strategic Resources	(542)
staffing cost savings - Assistant Chief Executive's Office	(524)
Additional Legal Services supplies & services costs	80
Additional Coroner's Service costs	41
Strategic Partnership budget pressure	317
Cross Cutting savings target shortfall	539
Other	8
Total	(364)

Corporate Costs	Variance
	£ ' 000s
NNDR income shortfall	1,140
Pay & price contingency saving	(930)
Goods Receipting/Duplicate Payments write back	(434)
NEPO rebate	(115)
Ex Trading back funding saving	(113)
Capital Financing cost savings	(64)
New Homes Bonus additional income	(341)
ER/VR payments	2,533
Contribution to the Change Programme	1,065
Other	(389)
Total	2,352

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

a. Service Headings:

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

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

b. Capital Depreciation Charges:

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

c. Transfers To and From Reserves:

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

d. Central Support Services:

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

e. Employer's Pension Fund Contributions:

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

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

f. Other Differences:

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

Local Economic Climate 2013/14

Business confidence has improved this year for business both locally and across the UK. Regional surveys carried out by the North East Chamber of Commerce as well as small business surveys across the UK have shown that companies are more confident in doing business in the UK in 2014 and more likely to be launching new products and initiatives.

This confidence has been felt locally in Middlesbrough as we have experienced an increase in both business growth and start up enquiries via Economic Development; in addition some of our larger engineering and manufacturing base have continued their drive forward. AV Dawson & PD Ports continue to make significant investment in their operations along with Riverside Park based businesses TWI, On A Roll sandwich manufacturer and SK Chilled Foods who have undertaken expansion plans to cope with the increase in demand. Hertel UK has secured major contracts this year and also saw them win Company of the Year in the North East Business Awards. QA Weldtech & Glanbia Nutritionals have made significant progress in overseas markets with Glanbia taking the recent regional Export Award plus apprenticeships, skills and training continue to be high on the agenda. A range of schemes are available to support companies who invest in apprenticeships and training.

Digital companies continue to experience high growth as Digital City celebrates its 10th anniversary this year. Additional office space Boho 5 is in the planning phase and many new companies continue to emerge onto the market place. Teesside University continues its expansion with a flagship £20m teaching facility on its Middlesbrough campus.

Retail is also improving as the high street gets to grips with changing consumer demands and council initiatives continue to improve its offering by supporting independent retailers and the reuse of empty shops. On the back of increasing consumer confidence there has been a series of new high end contemporary restaurants opening along Linthorpe Road such as Meze Lounge, Koochi, Purple Pig and Peri Peri. Independent Retail has been given a boost with the launch of Test Town in Middlesbrough – a national campaign to support up and coming retailers in seven UK towns along with further developments along Baker St which continue to attract new investment into the retail mix. The opening of two traditional micro pubs, a new café/restaurant – Baker St Kitchen and the expansion of Chilli Cake Deli has raised its profile even further.

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

Indicator	2014		2013		Direction	
	Local	UK	Local	UK	Local	UK
Unemployment - (1.)	6.4%	2.9%	8.1%	4.4%	Better	Better
Youth unemployment - (1.)	8.9%	4.9%	11.7%	6.6%	Better	Better
Empty commercial properties - (2.)	627		616		Worse	
Occupancy of Council commercial premises - (2.)	95.0%		94.1%		Better	

1. Government Office of National Statistics - NOMIS Official labour market statistics

2. Proportion of commercial units let compared to the number available.

Looking Ahead 2014/2015 and beyond

The Council continues to recognise the importance of business growth and consumer confidence and will continue to support business through its Economic Development & Regeneration teams. Confidence and growth is expected to improve in coming years although the upturn is being viewed cautiously. The council will continue to help the business community by promoting local growth initiatives through its 'Middlesbrough Means Business' campaign, as well as linking with Tees Valley Skills and Tees valley Unlimited to offer a range of free training, workshops, investment support, initiatives and advice.

The Teesside Advanced Manufacturing Park will see ground works begin on Riverside Park this autumn, which will offer a hi-tech business park facility to the manufacturing, engineering, chemical and energy sector. The businesses relocating here will benefit from rates discounts, superfast broadband, pre-approved planning permission and a ready-made supply chain.

Middlehaven continues to see further investment with the opening of the award winning state of the art neurological centre, as well as further expansion by the college along with an urban park, landscaping and live/work apartments. Plans to develop Boho 5 are well underway and will offer additional enhanced facilities to the digital sector.

The Council has also supported plans to develop a Holiday Inn hotel in the former offices above the Cleveland Centre which should bring further investment into the area. On the back of this development national restaurant chains are being identified to take up the retail units underneath the Cleveland Centre (facing centre square) to diversify the town centre offering. For business elsewhere in the town centre a rate discount scheme is being explored to further support retail and business sector. Wage subsidies and apprenticeship support via the National Apprenticeship Schemes and Tees Valley Skills will continue to be promoted into next year to further encourage business growth and promote opportunities for young people to gain local employment.

FINANCIAL REPORT

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

WHERE THE MONEY COMES FROM

	%	2012/13	%	2013/14	More / (Less)
		£m		£m	£m
Redistributed Business Rates	36.6%	80.1	0.0%	0.0	(80.1)
Top Up payment	0.0%	n/a	9.3%	20.8	20.8
Local share of Business Rates	0.0%	n/a	8.4%	18.9	18.9
Revenue Support Grant	0.7%	1.6	26.9%	60.4	58.8
Council Tax	23.7%	51.9	17.9%	40.3	(11.6)
Sales Fees and Charges	14.3%	31.4	16.6%	37.3	5.9
Specific Grants	13.4%	29.4	12.5%	28.1	(1.3)
Other Local Authority and Health	8.8%	19.4	6.5%	14.5	(4.9)
Rent Income	1.6%	3.6	1.8%	4.0	0.4
Other	0.9%	2.0	0.2%	0.4	(1.6)
Total	100.0%	219.4	100.0%	224.7	5.3

The retained business rate scheme - was implemented with effect from 1st April 2013. As a result of this, the Council can retain a proportion of the total business rates it receives. Middlesbrough's share is 49% with the remainder being paid to the precepting authorities which are Central Government (50%) and the Cleveland Fire Authority (1%). As the Council was a net recipient of funding from the National Non Domestic Rate (NNDR) pool, under the new regulations it also receives a top-up payment from Central Government.

Council Tax - The Council's performance at collecting Council Tax in 2013/2014 was 93.4% collected in the year compared to 96.0% the previous year.

WHERE THE MONEY GOES

		2012/13		2013/14	More / (Less)
	%	£m	%	£m	£m
Social Care	32.1%	70.6	29.9%	67.4	(3.2)
Environment & Transport	18.7%	41.0	17.4%	39.0	(2.0)
Children Families & Learning	22.0%	48.5	20.5%	46.2	(2.3)
Regeneration	5.6%	12.2	8.3%	18.6	6.4
Public Health	0.0%	0.0	6.9%	15.4	15.4
Partnership	6.1%	13.3	6.7%	15.1	1.8
Central Services	10.2%	22.3	5.7%	12.7	(9.6)
Capital Financing	4.0%	8.7	4.3%	9.7	1.0
Net Change in Reserves	1.3%	2.8	0.3%	0.6	(2.2)
Total	100.0%	219.4	100.0%	224.7	5.3

Regeneration /Central Services - Responsibility for the Property Services function transferred from Central Services to the Regeneration Service with effect from 1st April 2013 which is the main reason for an increase in gross expenditure for the Regeneration Service in 2013/14.

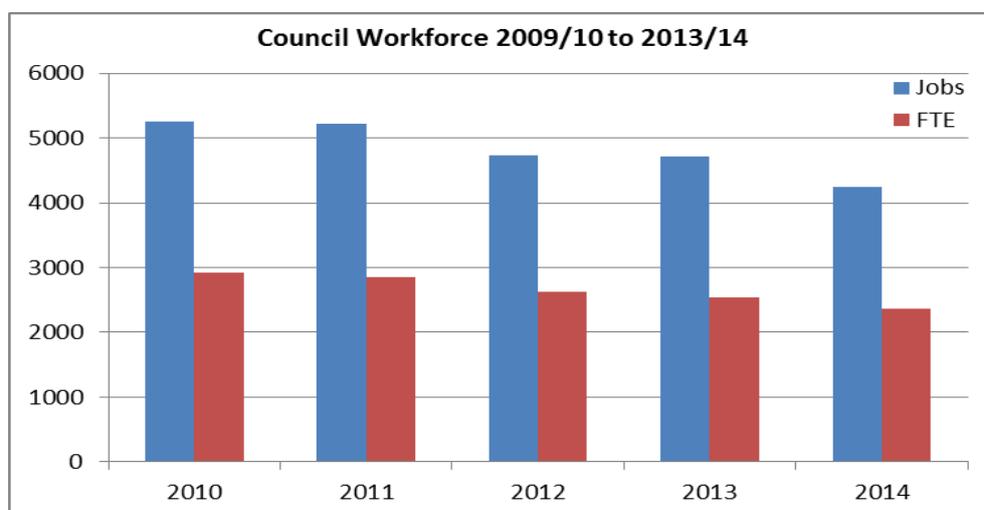
Responsibility for **Public Health Services** transferred from Primary Care Trusts on the 1st April 2013 . The cost of the service is funded from a ring fenced grant from Central Government

WHAT THE MONEY IS SPENT ON

		2012/13		2013/14	More / (Less)
	%	£m	%	£m	£m
Employee Costs	34.6%	76.0	31.3%	70.4	(5.6)
Premises	2.3%	5.0	4.4%	9.9	4.9
Transport	2.1%	4.6	1.6%	3.6	(1.0)
Supplies and Services	17.0%	37.2	21.7%	48.7	11.5
Third Party Payments	37.1%	81.6	36.4%	81.8	0.2
Capital Financing Costs	4.0%	8.7	4.3%	9.7	1.0
Contributions to Capital	1.6%	3.5	0.0%	0.1	(3.4)
Contribution to Reserves & Provisions	1.3%	2.8	0.3%	0.6	(2.2)
Total	100.0%	219.4	100.0%	224.7	5.3

Employee Costs -costs have continued to decrease because of the impact of the Change Programme review. A number of staff have left under the Early Retirement / Voluntary Redundancy (ER/VR) scheme. Note 42 provides details of the number and cost of exit packages agreed in 2012/13 and 2013/14.

The graph below provides details of the council's staff numbers from 2009/10 to 2013/14 set out both in terms of the numbers of staff employed and full-time equivalents (FTEs) in post. Over this period , staff numbers have fallen by 1,007 (19%) and FTEs by 560 (19%).



Supplies and Services -Whilst service areas made savings on supplies and services during 2013/2014, this has been offset by the Council now undertaking Public Health functions.

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

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

Reconciliation of Income to Service Analysis	2012/13	2013/14	More / (Less)
	£m	£m	£m
Shown below as 'where the money comes from'	219.4	224.7	5.3
Income excluded from analysis			
Schools DSG Grant (note 30).	91.4	87.3	(4.1)
Other Schools Income	4.8	14.7	9.9
Benefits Grant Income (note 30)	96.2	80.8	(15.4)
Other minor amounts	20.6	27.0	6.4
Gross Income Value	432.4	434.5	2.1
Treated as 'Funding' in Services Reporting:			
Business Rates	(80.1)	0.0	80.1
Top up payment	0.0	(20.8)	(20.8)
Local share of Business Rates	0.0	(18.9)	(18.9)
Council Tax	(51.9)	(40.3)	11.6
Revenue Support Grant	(1.6)	(60.4)	(58.8)
Funding Value as noted in outturn figures above.	(133.6)	(140.4)	(6.8)
Income Reported by Services (note 41).	298.8	294.1	(13.6)

BALANCE SHEET

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

Balance Sheet	2013	2014	More / (Less)
	£m	£m	£m
What the Council Owns	506.4	481.0	(25.4)
What the Council is Owed	57.2	50.7	(6.5)
Total Assets of the Council	563.6	531.7	(31.9)
What the Council Owes	(303.5)	(266.2)	37.3
Council Reserves	260.1	265.5	5.4

What the Council Owns		2013	2014	More / (Less)
		£m	£m	£m
Operational Property Plant and Equipment	1	397.7	364.7	(33.0)
Community Assets		7.6	7.9	0.3
Heritage Assets	2	26.3	27.2	0.9
Assets under Construction		0.5	2.6	2.1
Investment Properties	3	57.9	60.7	2.8
Assets Held for Sale	4	1.0	0.6	(0.4)
Cash and Cash Equivalents	5	12.0	14.0	2.0
Inventories		2.1	2.0	(0.1)
Other		1.3	1.3	0.0
Total		506.4	481.0	(25.4)

- 1 Operational Property, Plant and Equipment** are assets owned by the authority which are used in direct service provision. The value as at 31 March 2014 is £364.7 million (March 2013 - £397.7 million). The assets are revalued at least every five years and there was a decrease in the value of assets revalued during 2013/14 of £7.7 million. Due to the conversion of authority led community schools to independent Academy status, £22.9 million has been removed from the balance sheet. The Authority acquired or enhanced a number of roads / vehicles / buildings during the year to the value of £18.1 million. There was a depreciation charge of £16.2 million on the operational Property, Plant and Equipment. £2.2 million of assets held as Property, Plant and Equipment were reclassified either as Investment or an Asset held for Sale.
- 2 Heritage Assets** are held by the authority principally for their contribution to knowledge or culture. The heritage assets held by Middlesbrough Council are the art, books and artefacts collections either exhibited or stored in the local museums or MIMA art gallery. Last year the council acquired key pieces by Christopher Dresser and is continuing to add to the collection.
- 3 Investment Properties** are primarily held to earn rentals or for capital appreciation. The authority disposed of 22 assets from the investment portfolio resulting in £3.5 million of the assets value being removed from the balance sheet, including the sale of the Hemlington Grange site, The Wave and land at the former Brackenhoe site. The revaluation of investment properties resulted in an increase of £2.0 million, this included the upward revaluations of the former Prissick Farm Depot of £4.1 million, and a reduction in the value of the old South West Iron Masters site of £1.0 million. The Council acquired housing development land for £3.0 million of which £1.8 million was written off the balance sheet on revaluation of the development land, due to the value of future costs remaining higher than the estimated market value of the land.
- 4 Assets held for sale** reduced by £0.4 million due to the revaluation of the Acklam Hall Site which has reduced in value since it was initially classified as held for sale.
- 5 Assets Under Construction** are assets being constructed by the authority which will be used once completed in the direct service provision. The authority spent £2.2 million on assets under construction with £1.6 million of the expenditure being on the Prissick Sports Village / Park.

Capital

Details of the Capital expenditure in the year is as follows

Types of Expenditure	Spending (£ m)	Percentage
Operational Property Plant and Equipment	17.0	52.6%
Community Assets	0.4	1.1%
Heritage Assets	0.1	0.2%
Assets under Construction	2.2	6.9%
Investment Properties	3.4	10.4%
Intangible Assets	1.1	3.3%
	24.1	74.5%
Revenue Expenditure funded under capital	8.3	25.5%
	32.4	100.0%

Operational Property Plant and Equipment. The council spent £2.3 million on repairs to roads, footways and cycle routes, £4.3 million on Schools, £1.6 million on repainting the Transporter bridge and replacing the Gondolas. £1.1 million on new refuse vehicles and £2.4 million on wheelie bins & recycling containers distributed throughout the borough to implement to recycling strategy. £1.1 million on improvements to Libraries, Leisure centres, Care homes and Administrative Buildings and £1.3 million on other infrastructure (traffic signals, street lights, pedestrian crossings) and £2.9 million on IT hardware and vehicles

Investment Properties. The Council invested £3.0 million in the acquisition of land for Housing Development Projects.

Intangible Assets are identifiable assets which lack physical substance, but which are controlled by the authority and where the authority benefits from the economic benefits and the service potential. The spend during 2013/2014 was on IT systems / licences amounted to £1.1 million.

Revenue Expenditure funded from capital under statue is expenditure, which is classified as capital, but does not result in the creation of an asset owned by the Authority. £2.84 million is expenditure on Schools which are now Academies and therefore no longer assets owned by the Authority. £1.43 million is expenditure in the relocation of businesses from Middlehaven. £1.3 million is expenditure on the disabled facilities grants and adaptations.

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

Type of Funding	Spending (£ m)	Percentage
Grants	14.3	44.1%
Borrowing	11.7	36.1%
Other	6.4	19.8%
Total	32.4	100.0%

The Council can fund its capital expenditure from several sources, each with its own advantages and limitations. The main source of funding are grants, which often have restrictions on their use and borrowing, which comes with an additional interest cost.

WHAT THE COUNCIL IS OWED

	Note	2013	2014	More / (Less)
		£m	£m	£m
Short Term Debtors	1	39.0	38.9	(0.1)
Short Term Investments	2	17.5	11.2	(6.3)
Long Term Debtors	3	0.7	0.6	(0.1)
Total		57.2	50.7	(6.5)

Debtors (money owed to the council) tend to be higher at year end when a lot of external recharges are made. The year end balance has reduced slightly between March 2013 and March 2014.

Short-term investments (money invested in other local authorities, a variety of banks and building societies) has decreased by £6.3 million to £11.2 million. The Council is aiming to maximise the interest it earns by investing longer term. The investments are made after evaluating cash flow and potential risks.

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

WHAT THE COUNCIL OWES

		2013	2014	More / (Less)
		£m	£m	£m
Pension Liability	1	158.3	133.0	(25.3)
Loans to be repaid after next year	2	86.2	78.4	(7.8)
Creditors due next year	3	40.0	39.8	(0.2)
Provisions	4	5.2	6.1	0.9
Short Term Borrowing Loans to be repaid next year	5	13.4	8.4	(5.0)
Other amounts		0.4	0.5	0.1
Total		303.5	266.2	(37.3)

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

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

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

The Pension Liability decreased by £25.3 million between 31st March 2013 and 31st March 2014.

2 Long-term borrowing decreased by £7.8 million during 2013/2014.

3 Creditors is the amount of money owed by the Council to its suppliers and contractors, which totalled £39.8 million as at 31 March 2013 (£40.0 million as at 31 March 2013). Movements on creditor balances are principally due to timing differences in the processing of payments.

4 The Council has a number of **Provisions** set aside to meet known liabilities. The main provisions include the Housing Pension Contribution Deficit, redundancies that have been approved in 2013/201 but will take place in 2014/15 and Mouchel ICT contract residual value. Provisions held at 31 March 2014 totalled £6.1 million (Note 27).

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

COUNCIL RESERVES

Council Reserves	2013	2014	More / (Less)
	£m	£m	£m
Schools	7.4	6.2	(1.2)
Usable Reserves	56.5	71.0	14.5
Unusable Reserves	196.1	188.3	(7.8)
Total	260.0	265.5	5.5

Schools - There was a £0.4m drawdown from school reserves as a result of 5 schools converting to new academy status during 2013/14 and a £0.8m pressure against delegated budgets for the remaining schools. Total Schools' balance now stands at £6.2m .

The financial statements set out details of the Council's earmarked reserves, which are another essential tool to manage risk exposure and smooth the impact of major costs. Details of the Council's earmarked reserves can be found in Notes 32, 34 and 35 in the Accounting Statements. Current usable reserves total £71.0 million and the main usable reserves are:

- Capital Grants Unapplied Reserve (£16.4 million);
- Capital Receipts Reserve (£19.5 million); -
- Change Fund including Early Retirements and Voluntary Redundancies ; (£8.8 million)
- Insurance Fund reserves to manage claims and other corporate risks (£1.0 million);
- Demand led pressures in Adults and Childrens Social Care (£2.0 million).

The Council is expected to maintain a minimum balance on the General Fund of between £4.0 million and £4.5 million over the medium term to cover unexpected financial risks after making specific reserves and provisions to meet known and expected liabilities. The balance at the 31st March 2014 remained unchanged at £6.0 million .

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

Unusable Reserves

The unusable reserves are the Revaluation Reserve (£40.1 million) and the Capital Adjustment Account (£282.9 million), which are not cash backed. The Capital Adjustment Account records the consumption of the value of asset and what used to be called deferred charges and is now Revenue Expenditure Funded from Capital under Statute over the period that the authority benefits from the expenditure.

TEESSIDE PENSION FUND ACCOUNTS

During the last twelve months, the equity markets were again volatile but ended the year positively, with some at all time highs. Investors' previous concerns over euro zone no longer weighed on equity markets with a strong recovery over the year. Over 2013/14, it was the turn of the Chair of the Federal Reserve to inject volatility to the market with a suggestion of "tapering" a reduction the amount of quantitative easing. This created notable instability in the Far East and Emerging Markets. The market stabilised towards the end of the financial year as recognition developed that withdrawal of stimulus could be accommodated with growth expectations.

The financial performance of the Fund for the year to 31 March 2014 was positive. The Fund's value rose to over £3 billion for the first time, ending at £3.049 billion. The rise was due to UK, European and US equity markets and investment income.

The membership of the Fund continues to increase, with total membership at the year end now standing at 66,526, an increase of 2,030 over last year. The number of active members has decreased by 174. The numbers of pensioners increased by 798 (4.0%), previous year was increase of 461 (2.4%) and the number of deferred members has increased by 1,406 (6.78%), previous year was an increase of 1,021 (5.1%).

Where a member retires early there is a cost to the Fund arising from the fact that Contributions are no longer being received for the member, and a Pension is drawn earlier than the Actuary had assumed. It is the policy of the Fund to recharge the actuarial cost of these retirements to the employers. This policy has the advantage that the Fund recovers the cost of an early retirement at the outset. For the employer the advantages are twofold;

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

In this financial year the Fund received over £4.8 million from these early retirement recharges, up on last year figure of £4.3 million, an 11% increase on last year.

The Fund is managed internally, which means that Fund management fees are low. This can be clearly demonstrated by the key measure of performance collected by the Department for Communities and Local Government, which compares investment fund management costs across all Councils. These are expressed as £ per scheme member (psm). The results for 2013/14 show that the Teesside Fund had investment management costs of £16.67 psm based on the March 2014 membership of 66,526.

During this financial year, the Fund Actuary, AON Hewitt, carried out a full actuarial valuation of the Fund. The purpose of this was to calculate how much employers in the scheme need to contribute going forward to ensure that the Fund's liabilities, the pensions due to current and future pensioners, will be covered. Unlike most other Public Sector schemes the Local Government Scheme is a funded scheme. That means there is a pool of investments producing income which meet a significant part of the liabilities. The actuary calculates to what extent the Fund's assets meet its liabilities. This is

Municipal Mutual Insurance (MMI)

In September 1992 Municipal Mutual Insurance (MMI), the Council's former insurers, ceased accepting new business. MMI and its policyholders, including local authorities, established a Scheme of Arrangement for the orderly run down of the company.

MMI have announced that they can no longer predict achieving a solvent run-off of the business, thereby triggering the Scheme of Arrangement. As a result control of the company has passed to an Administrator who subsequently announced that the initial reclaim Scheme Levy would be set at 15%. During the course of 2013/14 the Council made payments totalling £901,800 as clawback of previously paid claims due under the Municipal Mutual Scheme of Arrangement

All future claim payments falling under the Scheme will be subject to a 15% contribution from the Council. It is not possible to quantify the potential cost at this stage since neither the number nor value of future claim payments can be predicted with any degree of certainty.