Narrative Report 2023/24

Newcastle City Council

1. Introduction

The accounts of such a large and diverse organisation as Newcastle City Council are by their nature both technical and complex. This report provides an explanatory narrative to key elements of the statements and sections in the accounts and also provides a summary of the Council's financial performance for 2023/24 and its future financial prospects.

This report provides the reader with:

- A guide to the different financial statements within the Statement of Accounts
- An overview of the activities and significant matters which occurred during the year
- A summary of the Council's financial performance during the year ended 31 March 2024 and its financial position at that date
- A look ahead to 2024/25 and beyond

2. Revenue Financial Summary 2023/24

The Council has continued to experience difficulties in mitigating cost pressures given the high inflation in the wider economy. The COVID pandemic still affects some services which have continued to experience income shortfalls. Some services are experiencing higher than expected costs in relation to inflation-linked long-term contracts and specific goods, works and services. Given this backdrop, the position for the Council is a relatively small overspend of £0.3m. Table 1 summarises the impact of these external factors on the council's 2023-24 General Fund budget. Figures in brackets represent an underspend against the agreed budget.

Table 1 – final outturn position

Directorate (all figures in £m)	Budget (B)	Outturn (O)	Variance (O-B)
Adult Social Care & Integrated Services	119.3	117.0	(2.3)
Assistant Chief Executive's	3.1	3.1	0.0
Children, Education & Skills	73.2	78.1	4.9
Finance	6.7	5.9	(0.8)
Operations & Regulatory Services	52.4	51.0	(1.4)
Repairs & Construction Services	(2.5)	0.2	2.7
Place	12.4	17.0	4.6
Workforce & Inclusion	2.5	2.2	(0.3)
JTC Levy	18.0	18.0	0.0
Corporate items / reserves	(23.0)	(30.1)	(7.1)
TOTAL	**262.1**	**262.4**	**0.3**

Despite the inflationary pressures experienced, the Council is reporting a overspend of only £0.3m on its General Fund budget at the end of the financial year. This is after the use of reserves totalling £4.7m to off-set the COVID scarring evident in Adult Social Care (£4.0m) and Parking (£0.7m). Further details on individual service budgets are set out in the following sections of this report.

Key factors to note from this outturn position are as follows:

Adult Social Care & Integrated Services

Adult Social Care & Integrated Services directorate includes the following services – Adult Social Care including support to adults with long-term social care needs, older people, learning disabilities and autism, mental health and specialist services, and Integrated Services including intermediate care and housing support services.

The directorate reported an underspend of £2.3m after the proposed use of reserves totalling £4.0m due mainly to the following services:

- Adult Social Care, which reported an underspend of £0.2m due mainly to increased recovery of income. There were pressures on commissioning budgets mainly within Older People, and Learning Disability & Autism services, in relation to inflationary pressures, and pressures within the domiciliary market; and
- Integrated Services, which reported an underspend of £2.1m due mainly to staffing vacancies.

Assistant Chief Executive's

Assistant Chief Executive's directorate includes the following services – Communications, Communities, Informatics & Insight and Policy & Performance. The directorate reported a breakeven position this year. There are no significant variances at a service level to highlight.

Children, Education & Skills

Children, Education & Skills directorate includes the following services – Children's Social Care, Education, Early Help & Family Support and the Strategy & Commissioning Unit. The directorate reported a pressure of £4.9m due mainly to the following services:

- Children's Social Care, which reported an overspend of £4.6m caused by the increasing cost of placing children in external residential provision, caused by extra complexity of the children coming into care and a very challenging provider market. The directorate continues to work to provide more in-house options to care for these children and also to negotiate with the external market where in-house provision is not suitable; and
- Education, which reported an overspend of £0.7m due mainly to higher than expected demand for SEN services and increases in contractual rates for SEN provision.

Finance

Finance directorate includes Audit, Risk & Insurance, Exchequer Services, Finance, Procurement and Revenues & Benefits. The directorate reported an underspend of £0.8m due mainly to the following services:

- Revenues & Benefits, which reported an underspend of £0.3m due mainly to an underspend on the staffing budget due to vacancies and higher than expected court costs income;
- Finance, which reported an underspend of £0.3m due to staffing vacancies; and
- Procurement, which reported an underspend of £0.2m due to over recovery of contractual rebate income.

Operations & Regulatory Services

Operations & Regulatory Services directorate includes the following services – Repairs & Construction Services, Democratic Services, Facilities Services & Civic Management, Local Services, Car Parking and Regulatory Services, as well as support services such as Business Management, Legal Services and ICT. The directorate reported an underspend of £1.4m after the proposed use of reserves totalling £0.7m. The following services reported variances:

- Facilities Services & Civic Management, which reported an underspend of £0.417m due mainly to higher than expected income across a range of services which offset a pressure of £0.647m against School Meals ingredient costs;
- Local Services, which reported an underspend £0.731m due mainly to over recovery of income and staffing underspends;
- Business Management, which reported an underspend of £0.537m due mainly to a reduction in post-mortems within the Coroner’s Service and vacant posts;
- Operations, which reported an overspend of £0.746m, caused by pressures of rising vehicle costs in vehicle replacement, and rising repairs costs as a result of inflation in Estate Management Services; and
- IT, which reported an underspend of £0.489m due mainly to staffing vacancies.

Repairs & Construction Services, which was managed by YHN for the majority of the year even though this sits within the directorate’s budget, reported an overspend of £2.7m. Income for some construction projects was recovered in advance in prior years meaning that those projects that completed in 2023-24 didn’t receive income in-year.

Place

Place directorate includes the following services – Capital Investment, Commercial Development & Property Services, Development Management, Economic

Development, Fairer Housing Unit, Museums, Arts & Culture and Transport. The directorate reported an overspend of £4.6m due mainly to the following services:

- Fairer Housing Unit, which reported an overspend of £0.7m due mainly to incurring temporary additional costs in relation to the Byker district heating scheme, which we run on behalf of Karbon Homes;
- Commercial Property, which reported an overspend of £4.0m due to the rising costs of managing properties and under recovery of income against target for some properties within the portfolio;
- Development Management, which reported an overspend of £0.4m due mainly to a shortfall of planning fee income; and
- Transport, which reported an underspend of £0.5m due mainly to higher than expected income from traded services.

Workforce & Inclusion

Workforce & Inclusion directorate includes the following services – Human Resources and Public Health. The directorate reported an underspend of £0.3m due mainly to staffing underspends across Human Resources and higher than expected recovery of income in Health & Safety and Organisational Development.

Corporate items

Corporate items consist of a range of centrally managed budgets such as treasury management, historic pensions costs, severance costs and insurance costs. We reported an underspend of £7.1m on these budgets as set out in Table 2. Figures in brackets represent an underspend against the agreed budget.

Table 2 – breakdown of corporate items underspend

Corporate items: all figures in £m	**Variance**
Higher than expected pay award	2.4
Lower than expected non-pay inflationary pressures	(1.6)
Treasury Management	(5.9)
Housing Benefit	0.9
Additional 2023-24 Business Rates Top-Up Grant	(0.4)
Business rates levy surplus	(0.8)
Other corporate items (mainly Eldon Square	(1.7)
TOTAL	**(7.1)**

The following is a brief description of each item set out in the above table:

- Higher than expected pay award – this is the additional (i.e. unbudgeted) cost of the 2023-24 pay award.

- Lower than expected non-pay inflationary pressures – actual non-pay inflationary cost pressures (including utilities) were lower than budgeted.
- Treasury management – interest receivable due to continued level of interest rates due to level of cash balances held.
- Housing benefit – increase in housing benefit payable to residents in supported accommodation that is not fully recoverable from the government.
- Additional 2023-24 Business Rates Top-Up Grant – this is the additional grant funding receivable following the 2023 business rates revaluation.
- Business rates levy surplus – this is our share of a refund from government as the amount collected from local authorities subject to the levy exceeded the amount paid out to local authorities via the safety net in 2023-24.
- Other corporate items includes variances against other corporate budgets, including lower than expected Eldon Square income pressure.

3. Guide to the Statement of Accounts

The Statement of Accounts sets out the financial performance of the Council for the year ended 31 March 2024 and its financial position at that date. They have been prepared in accordance with proper practices as set out in the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code requires that the accounts give a true and fair view of the financial position of the Council. In line with the Code, suitable accounting policies have been applied, and where necessary prudent judgements and estimates have been made.

The accounts feature four main financial statements:

- Movement in Reserves Statement
- Comprehensive Income and Expenditure Statement
- Balance Sheet
- Cash Flow Statement

The purpose of each of the above statements is described at the end of this report. The actual statements are contained within the accompanying Statement of Accounts document, which also includes detailed notes providing further explanation in relation to specific amounts and balances.

The main statements are supplemented by four further sections:

- Explanatory Notes to the Core Statements
- Housing Revenue Account (HRA)
- Collection Fund
- Group Financial Statements

These statements and accounts collectively provide a comprehensive view of the Council's financial position during the period to which they relate.

The Council seeks to make best possible use of resources available with regard to economy, efficiency and effectiveness. This responsibility is shared by Members and officers of the Council along with the Chief Finance Officer having a specific role in ensuring the adequacy of resources and proper financial administration. The City Council agreed at the meeting in March 2024 the medium-term plan for the period 2024/25 to 2026/27. The accompanying Statement of Accounts looks back at our performance over the past year (2023/24). Reviewed together they provide the reader with an understanding of the financial position of the Council.

Key points to note from the Statement of Accounts are as follows:

- Our net revenue expenditure in 2023/24 was £262.4m (2022/23 £241.2m). When compared with the net revenue budget of £262.1m (2022/23 £241.7m), this represents an overspend of £0.3m (2022/23 underspend of £0.5m).
- The General Fund unearmarked reserve has increased to £17.5m (£10.1m 31 March 2023). This is due to the transfer of the Financial Risk and Resilience Reserve into the unearmarked reserve (£7.7m) offset by the General Fund overspend of £0.3m.
- Net assets/total reserves increased during the year from £1,113.5m to £1,197.1m.
- General Fund earmarked reserves decreased from £195.1m to £176.9m. Note 32 to the accounts on page 87 gives a full breakdown of these reserves.
- Total capital investment during the year was £141.9m (£141.2m in 2022/23) through the capital programme.

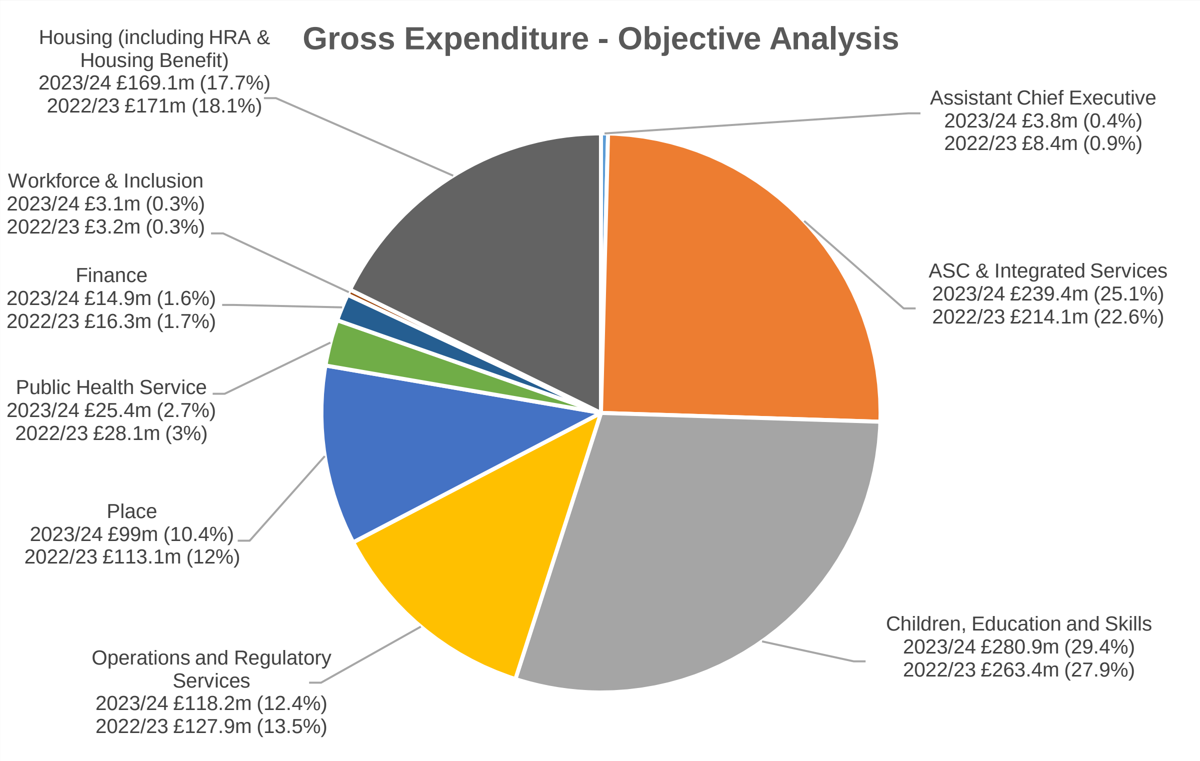
4. Revenue Financial Summary 2023/24

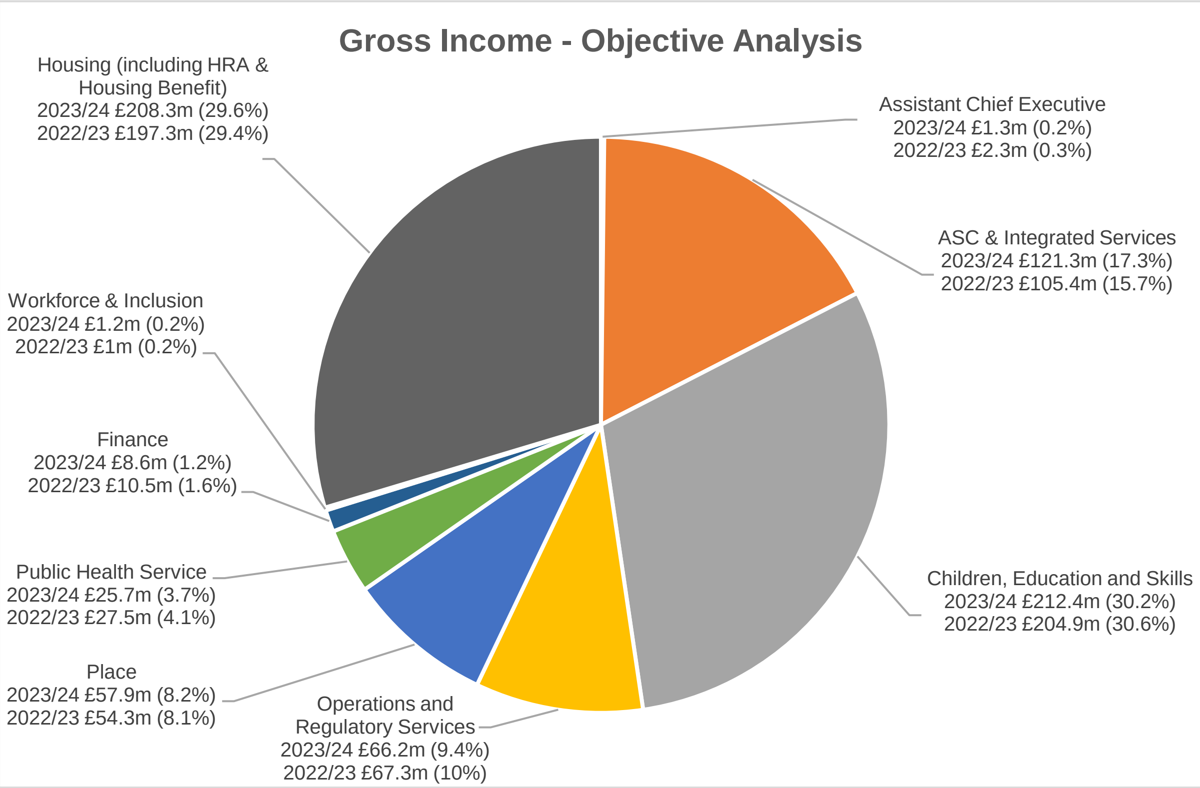
Revenue expenditure covers the cost of the Council's day to day operations and contributions to and from reserves.

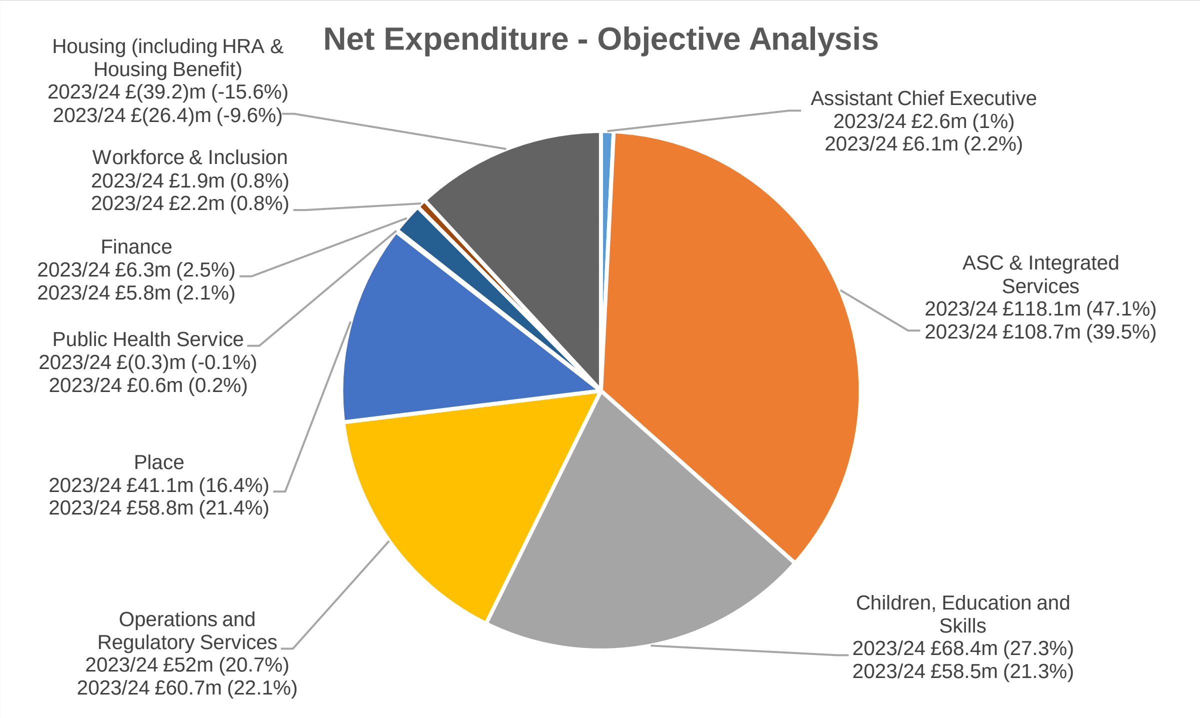
Within the accompanying Statement of Accounts document, the Comprehensive Income and Expenditure Statement (CIES, page 12) sets out the Council's financial position for the year before taking account of statutory adjustments required to be made to the accounts. The Movement in Reserves Statement (MIRS, page 11) reflects these statutory adjustments and shows how the financial performance for the year has impacted on the Council's reserves.

The gross cost of services during the year was £960.5m (£955.9m in 2022/23) and this is shown within the CIES on page 12 of the Statement of Accounts. This includes both General Fund services and the Housing Revenue Account (HRA). After deducting specific grants and income from fees and charges, the net cost of services was £254.8m (£284.4m in 2022/23) which again is shown within the CIES on page 12 of the Statement of Accounts.

The breakdown of gross expenditure, gross income and net expenditure (General Fund) between the different service areas is shown in the following charts and corresponds to the Comprehensive Income and Expenditure Statement presentation. Corporate costs have been excluded from the analysis on the basis that this includes technical pension adjustments:







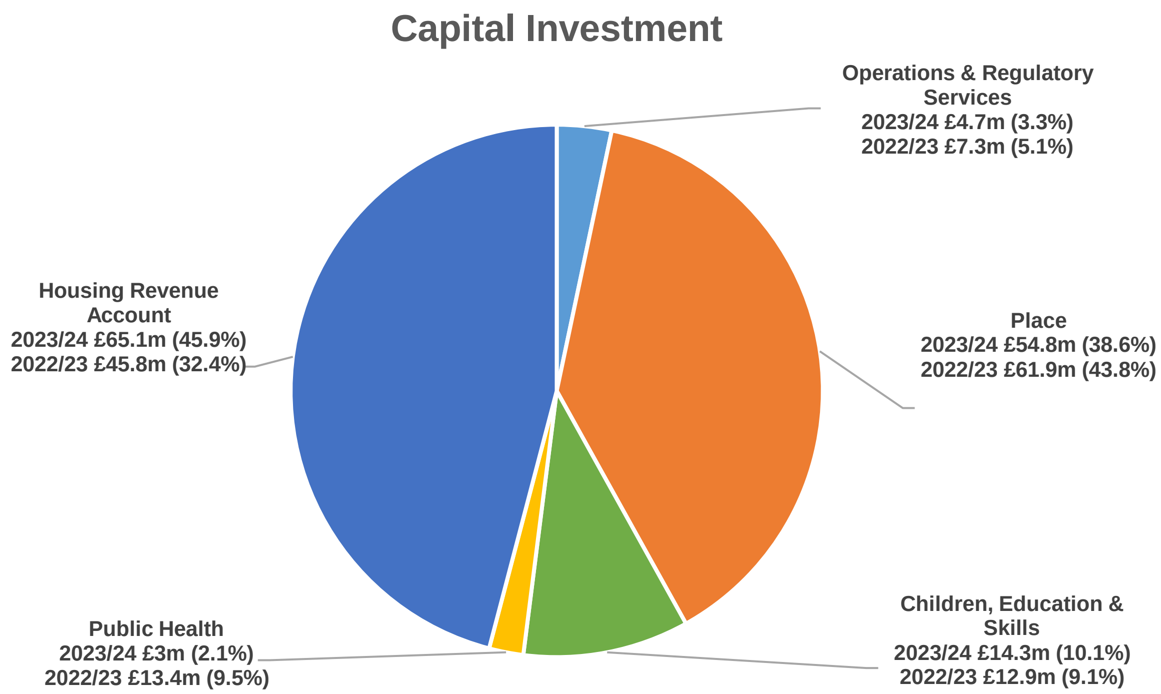
Revenue expenditure covers the cost of the Council's day to day operations and contributions to and from reserves. This expenditure is offset by various types of income received by the Council.

The net cost of service of £254.8m (£284.4m in 2022/23) which can be seen on page 12 of the Statement of Accounts was funded from a range of sources including Revenue Support Grant, Business Rates and Council Tax. The average band D Council Tax for 2023/24 for the Council (excluding parish precepts) was £2,180.51 (£2,086.87 in 2022/23), with an average Council Tax per dwelling (excluding precepts) of £1,190.38 (£1,127.34 in 2022/23). This ranked the Council as the 283rd lowest out of 296 local authorities for the average Council Tax amount per dwelling.

The Comprehensive Income and Expenditure Statement on page 12 of the Statement of Accounts shows a net surplus for the year of £83.5m (2022/23 net surplus of £613.0m) which is after re-measurement of the defined benefit pension liability and revaluations of property. These charges are reversed out through the Movement in Reserves Statement (MIRS, page 11) so they do not have any impact on the underlying level of resources available to the Council.

5. Capital Investment

Capital investment during the year totalled £141.9m (£141.2m in 2022/23). This consisted of £141.9m (£141.2m in 2022/23) direct capital expenditure incurred by the Council and £Nil (£Nil in 2022/23) capital expenditure via long-term capital loans to third parties. An analysis of capital investment by Directorate and funding source are shown in the following charts:



The significant capital projects / programmes with spend over £1.0m by Directorate were as follows (figures in brackets represent total capital investment, which is funded from a range of sources):

Children, Education and Skills

- Gosforth Park First (£2.5m)
- Kingston Park Primary (£1.5m)
- Gosforth Central Middle (£1.5m)
- Thomas Berwick (£3.3m)

Operations and Regulatory Services

- Technical Refresh (£1.5m)

Place

- Disabled Facilities Grant (£2.7m)
- Intelligent Transport Systems – Transforming Cities Fund NCC (£1.4m)
- Intelligent Transport Systems – Transforming Cities Fund Non-NCC (£2.7m)
- Transforming Cities Fund City Centre (£1.1m)
- Northumberland Street Improvements (£5.1m)
- Pattern Shop (£3.6m)
- Road & Footpath Maintenance (£3.6m)
- Tyne Bridge Maintenance (£2.8m)

- Woodside Avenue – North Bank of Tyne Enterprise Zone Land Remediation Project (£2.1m)
- Clean Air Zone (£3.0m)
- Levelling Up Fund (LUF) City Centre Digital (£1.0m)
- Pilgrim Street Southern Block (£2.7m)
- Eldon Square Improvements (£1.3m)
- Stockbridge House Acquisition (£9.0m)

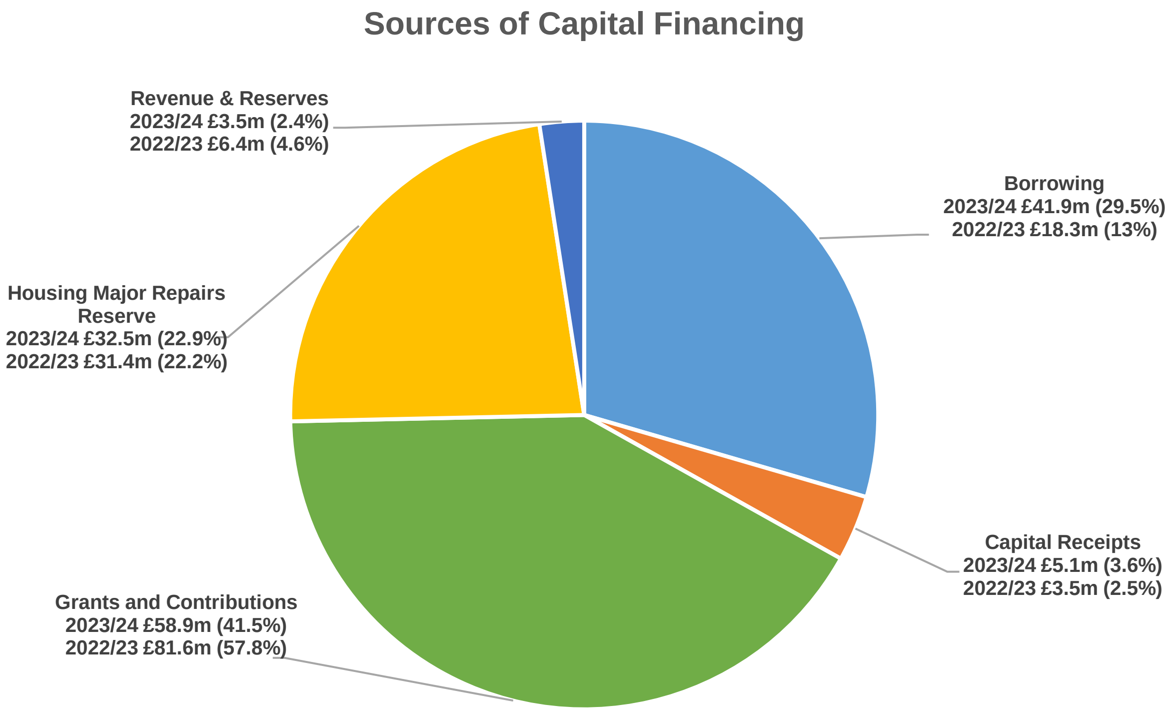
Public Health

- West Denton Community Site (£2.4m)

Housing Revenue Account

- Adaptations Programme (£2.9m) – installation of disabled adaptations to HRA properties
- Communal Upgrade Multis (£3.4m) – refurbishment of communal areas in low and mid-rise HRA block
- Social Housing Decarbonisation Fund Retrofit Project (£3.7m) – installation of external insulation in HRA properties in Walker
- Social Housing Decarbonisation Fund Shieldfield (£2.7m) - retrofit tower blocks with external insulation and new high performance windows, to improve energy efficiency
- Social Housing Decarbonisation Fund Heaton Park Court (£2.1m) - retrofit tower blocks with external insulation and new high performance windows, to improve energy efficiency
- Voids Programme (£4.6m) – capitalisation of reinstatement works to void HRA properties
- Kitchen Programme (£6.9m)
- Bathroom Replacement Programme (£3.4m)
- Fire Door Replacements (£4.0m)
- Pendower Environmental (£2.8m) – environmental scheme to upgrade paving, fencing and driveways to across the estate
- Aln Crescent Broomyhill (£1.7m) – new build programme of 14 affordable rent homes
- Multi-Storey Roofing (£2.0m)
- City Road Balcony Replacement (£1.6m)
- Newbiggin Hall Redevelopment (£2.1m)
- 1-5 Augusta Close Acquisition (£1.7m)
- Local Authority Housing Fund (LAHF) Acquisitions (£6.1m) - purchase of 27 homes for the homeless, those at risk of homelessness and refugees

An analysis of how this capital investment was financed is shown in the following chart:



6. Housing Revenue Account (HRA)

The HRA Income and Expenditure Account on page 135 of the Statement of Accounts sets out the financial position for the year before taking account of statutory adjustments required to be made to the accounts. The Statement of Movement on the Housing Revenue Account on page 136 reflects these statutory adjustments and shows how the financial performance for the year has impacted on HRA reserves.

The HRA Income & Expenditure Statement shows a net surplus for the year of £33.5m (net surplus of £20.6m in 2022/23).

7. Treasury Management

The Balance Sheet on page 13 shows external borrowing of £728.0m as at 31st March 2024, which is split between short term borrowing (£22.5m) and long-term borrowing (£705.4m). This compares to total external borrowing of £774.5m as at 31st March 2023 (£17.7m short term borrowing and £756.8m long term borrowing). External borrowing is within our agreed Treasury Management authorised limit of £915.3m (excluding PFI).

The Balance Sheet also shows that there were short term external investments at 31st March 2024 of £5.1m which represented £5.1m invested with other local authorities and similar bodies, £nil invested with the UK Debt Management Office (Treasury) markets generating a fixed interest return. The Council maintained its investments in line with the limits agreed by City Council in March 2023 (updated in December 2023) throughout the year.

8. Debtors

The Balance Sheet on page 13 shows short term debtors of £121.8m as at 31st March 2024 compared to £112.7m at the end of the previous year. These balances are analysed in more detail in Note 21 on page 71.

9. Income Collection

The average band D Council Tax for 2023/24 for the Council (excluding parish precepts) was £2,180.51 (£2,086.87 in 2022/23), with an average Council Tax per dwelling (excluding precepts) of £1,190.38 (£1,127.34 in 2022/23). This ranked the Council as the 283rd lowest out of 296 local authorities for the average Council Tax amount per dwelling.

Council Tax collection is 97.09% which is 0.01% higher than in 2022/23 at 97.08%; this remains the highest collection rate in the core cities benchmarking group. In 2023/24 full recovery and enforcement cycles were carried out, a one off hardship payment was paid to customers in receipt of council tax support this was applied direct to their Council Tax account, assisting them to maintain their payments despite the cost-of-living crisis.

Business Rates collection is 98.52% which is 0.50% lower than in 2022/23 at 99.02%; performance dipped slightly in March this is mainly attributable to changes to rateable values processed in March, any outstanding debt will be collected in 2024/25 this is the highest collection rate in the core cities benchmarking group.

During 2023/24, 98.75% of housing rents due in the year were collected against a target of 98.65%. The Financial Inclusion Team helped customers claim £2.25m in entitled benefits and gave advice to 1,400 customers, which has positively impacted on exceeding the collection target.

The number of Universal Credit claimants has remained static at approximately 11,000 but we are expecting this number to rise slightly following the start of the DWP Managed Migration to Universal Credit, which began in Newcastle on 8 January 2024. Rent collection has not been impacted as a result of the cost of living and energy crisis as there has been effective targeted help for customers from YHN's own Making Living Easier Fund, and the Household Support Fund (HSF).

The Income Collection team work towards the Council's and YHN's policy of no evictions into homelessness, which contributes to better representing Newcastle's values of alleviating poverty and responding to the challenges residents face from the cost of living crisis. The Income Collection and Financial Inclusion Team aim to understand and support residents to sustain their tenancy. We aim to focus on prevention at the earliest stage by identifying, assessing and referring residents when they first need help, not when they are at crisis point. By doing this we aim to improve vulnerable people's wellbeing by stabilising their housing and financial situation so that they can thrive and have the building blocks to live happily and successfully.

Sundry debt collection in 90 days at the end of March 2024 was 81.4% which is a reduction on the position in March 2023 (88.5%). A decline in the 90-day collection % coincided with the start of the cost of living and energy crisis from April 2022.

When measuring the collection rate to date (includes invoices paid outside of 90 days), the result at the end of March 2024 was 96.2%. This indicates that debtors are paying, but later than 90 days, possibly paying other Priority debts such as utility bills before their Sundry debt invoices. Unlike Priority debts, we have little power to enforce the recovery of Sundry debt.

Recovery activity will continue to focus on contacting sundry debtors who are not yet 90 days overdue (e.g. outbound contact using Voicescape) to assist us in achieving the 90% collection target.

10. School Balances

Individual school balances at the end of the year totalled £9.9m compared to £11.4m at the end of the previous year. These balances will change year on year as schools utilise or increase their balance. Balance levels also change where a school converts to an academy and the retained balance transfers on conversion. Schools hold balances to mitigate against a range of financial risks or to provide for planned large items of one-off expenditure. Schools holding balances need to be able to illustrate that the balance is held for a specific purpose and will be spent within a defined timescale and have been approved by governors. This process is monitored and subject to annual review by the Schools Forum.

Schools also hold balances to address anticipated funding shortfalls, to mitigate against known cost pressures and forecast variations in pupil numbers.

11. Pension Costs

The Council is a member of the Tyne and Wear Pension Fund (the pension fund), which is part of the Local Government Pension Scheme, which provides defined benefits based on members' final pensionable salary and years of service. In accordance with IAS19, the Council is required to value all pension liabilities that have accumulated at the end of the year consisting of:

- Pension benefits that are being paid out to former employees who have retired
- Pension benefits earned to date by current employees but not yet paid out

IAS19 also requires the Council to value all investments held by the pension fund at market value at the end of the year.

When assets and liabilities at year-end are compared this results in a surplus or deficit. At the end of the year there was a pension fund deficit of £46.7m and this is disclosed on the Balance Sheet on page 13. This compares with a surplus of

£16.8m at the end of 2022/23. The level of deficit or surplus can vary year on year due to the assumptions made by the pension fund actuary in determining the discount factor used when assessing the fund. This can significantly change the fair value of fund liabilities. The deficit as at 31st March 2024 takes into account the national judgements on McCloud and Guaranteed Minimum Pensions (GMP). The actuary valuation is influenced by a number of wider economic factors. Note 29 to the accounts on page 77 provides further analysis and disclosure of the Pension Fund Liability.

The sustainability of public sector pension schemes is dependent on the funds ability to generate returns (hence the use of equities in the main which tend to outperform other asset classes over the longer term) sufficient to cover the future payments to pensioners. There are a number of factors that cause volatility in the valuation of the pension assets and liabilities which are used by the fund actuary to calculate the accounting values on the fund as follows:

- Equities (shares) which can be very volatile in the short term. This could lead to significant movements in the asset values between years but in the long-term equity values generally increase.
- Bond yields can also be very volatile. A decrease in bond yields will increase the value of the liabilities but this is marginally offset by an increase in the fund assets.
- Pension fund liabilities are linked to either pay or price inflation. Higher inflation expectations will lead to an increase in the pension funds liabilities.
- Life expectancy is increasing which means that the future liabilities are increasing in line with the expectations of pension payments to existing and future pensioners.

Assumptions are made by the actuary on all of the above based on information available to them from the pension fund and national data. Being a funded scheme means that any deficits must be picked up by the employers within the fund based on a tri-annual valuation.

12. Material Items of Income and Expenditure

During 2023/24 the following material item of income/expenditure warranted separate disclosure, as detailed below and in Note 6 on page 33.

Pension Liability:

> On an annual basis, each member of the Tyne and Wear Pension Fund is required to re-measure its liability to the fund and account for any changes in its accounts. The changes are determined by an Actuary who makes assumptions that cover average life expectancy, inflationary factors affecting pension increases, the ability of investments to generate returns and salary increases which increase member contributions. The change identified is charged against the Pension Reserve with the corresponding entry being recognised in the CIES.

In 2023/24, the pension adjustment recognised in the CIES as a result of the actuarial report is an increase in the pension liability of £104m (2022/23 net decrease of £523m).

Further details can be found in Note 29.

Provisions:

A Collection Fund NDR provision is held in respect of alteration of lists and appeals. In 2023/24, there was a draw down from the provision of £6.0m in respect of appeals paid out and a net addition to the provision of £4.0m (2022/23 draw down of £5.3m and net addition of £8.2m)

Further details can be found in note 25 of the financial statements.

Asset Transfers:

There were no disposal of assets of material value during 2023/24 (2022/23 Knoplaw Primary School £6.4m)

There was one addition over £5m, which was Northumberland Street improvements, at £5.134m (2022/23 nil)

Material Asset Revaluations:

There were two material revaluations in 2023/24. The first relates to an HRA asset Beacon 284 which was revalued upwards by £8.556m. The other is Eldon Square which was revalued upwards by £5.945m

Further details can be found in Note 16.

Impairment Losses on Third Party Loans:

Following a review of the risk (as required under accounting standards, IFRS9) associated with the loans the Council has provided to third parties over a number of years (taking account the current economic situation), an impairment charge was made to the CIES in 2023/24 of £2.2m (2022/23 £5.0m). No loans have been written off in 2023/24 but the financial affairs of any third party organisations involved are being monitored frequently.

Further details can be found in Note 4.

13. Restatement

There were no circumstances identified which required a prior period adjustment to the accounts.

14. Group Results

The Group Accounts included as part of the Statement of Accounts incorporate the results of Your Homes Newcastle Group (YHN) and Newcastle Science Central Holdings Limited each as 100% subsidiary companies. Regenerate Newcastle Asset Co. Limited is consolidated as a 60% subsidiary and New Tyne West Development Company LLP is also consolidated as a joint venture holding. Full details of the group relationships can be found in the Group Introduction on page 148 of the Statement of Accounts.

The Group results show a surplus for the year of £98.6m (surplus of £677.3m in 2022/23). The net assets of the Group stood at £1,265.4m as at 31st March 2024 (£1,166.9m as at 31st March 2023).

Other entities which fall within the potential group boundary, but which are not consolidated into the Group Accounts as they are not considered to be material, are detailed within the Related Parties Note 15 within the Statement of Accounts on page 45.

15. Accounting Developments and critical judgements

In applying the accounting policies set out in Note 42 of the Statement of Accounts (Statement of Accounting Policies) the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

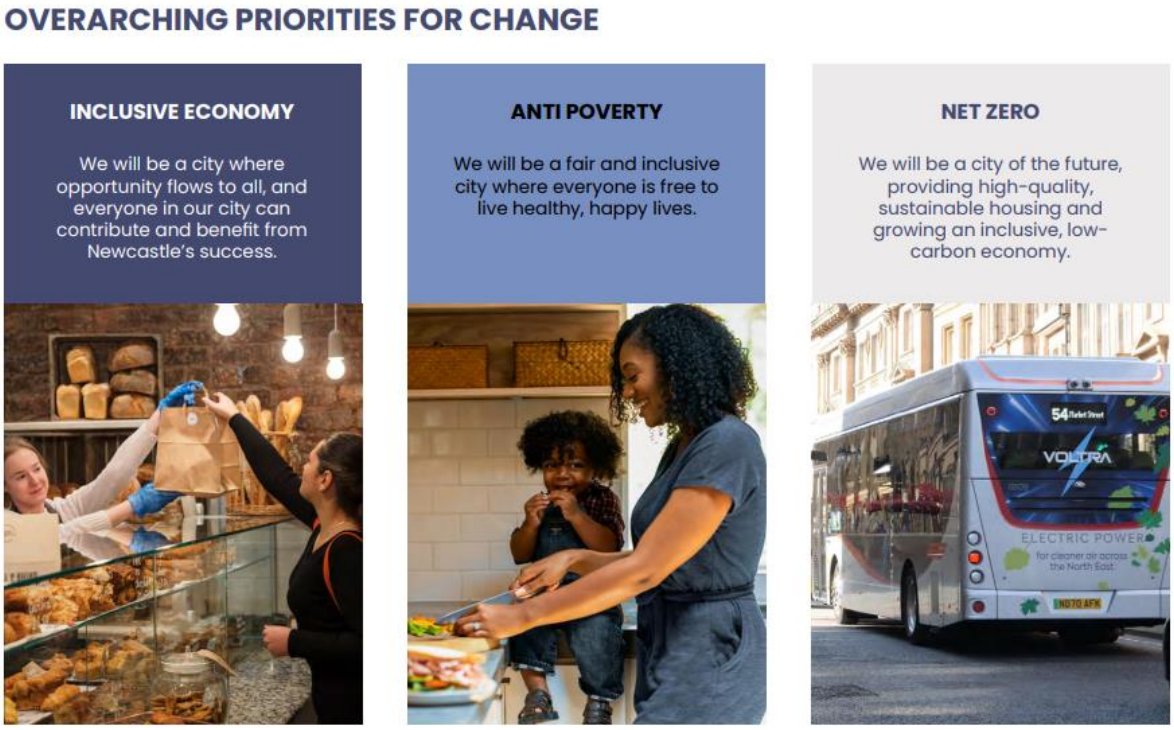
Critical judgements in applying accounting policies are set out in Note 39 of the Statement of Accounts.

Assumptions made about the future and other major sources of estimation uncertainty are set out in Note 40 of the Statement of Accounts.

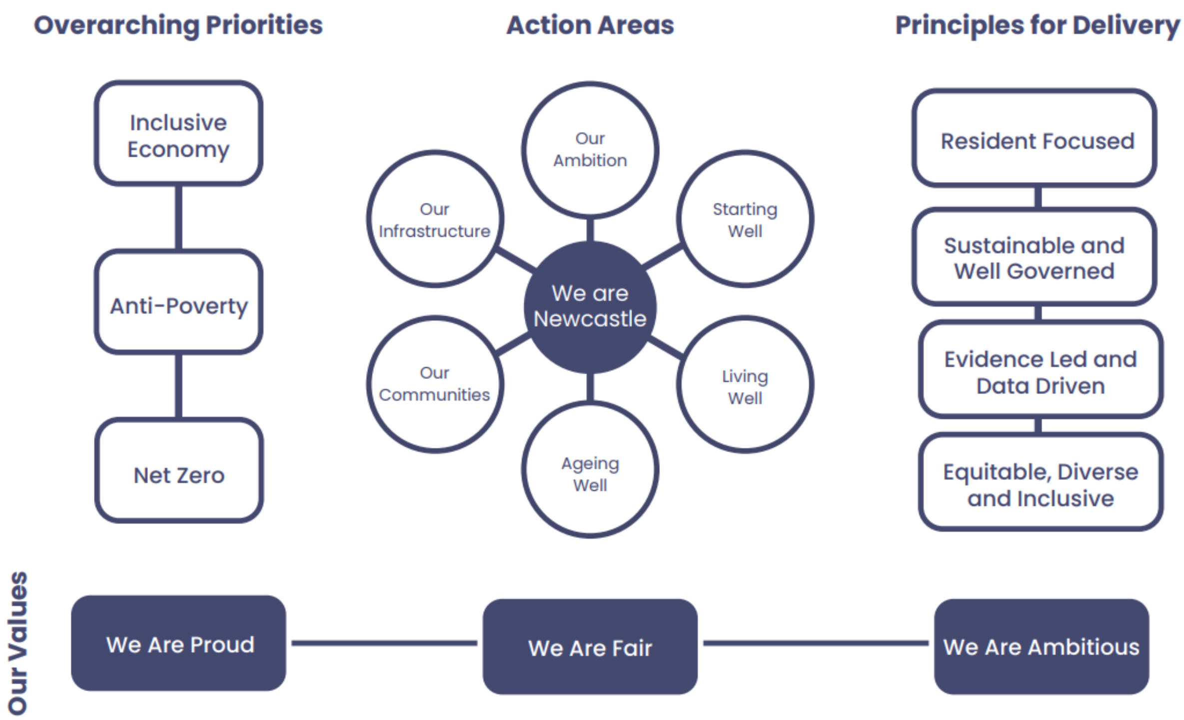
16. Financial Planning - Priorities

It is essential the Council is clear on our overarching priorities so that we can allocate resources accordingly.

The Council's overarching priorities of inclusive economy, anti-poverty and net zero are set out in the Council Plan 2024-2027.



Our priorities are interdependent – progress in each directly impacts the other areas. This encourages a joined-up approach to policy and delivery within our city.



The proposals in our medium-term financial plan for 2024-25 to 2026-27 – Revenue and capital plan are aligned with our refreshed Council Plan, which is the touchstone for our priorities and our decision making and sets out the council's contribution to achieving our vision for the city.

To meet our priorities for Newcastle, we will focus on themed action areas of life in our city:

- **Starting Well**: Investing in children and young people for the future of Newcastle
- **Living Well**: Reducing inequalities and ensuring fair access to high quality services that improve health and wellbeing for everyone in Newcastle
- **Ageing Well**: Enabling people to enjoy later life, with more control over the care they receive
- **Our Communities**: Creating safe and sustainable neighbourhoods that enrich our quality of life and our city's profile
- **Our Infrastructure**: Driving an active, affordable and green transport system and innovative digital connections
- **Our Ambition**: Investing in a strong economy that is home to business, innovation, culture and visitors

And we will work with clear principles for delivery:

- **Resident Focused**: Placing residents at the heart of our decision making
- **Resilient and Sustainable**: Ensuring we are financially healthy and prepared for economic shocks
- **Well Governed**: Prioritising a fair, transparent and skilled organisation that serves public good.
- **Evidence Led and Data Driven**: delivering insight and expertise about Newcastle, for Newcastle

17. Looking Ahead / Economic Position / Going Concern

The City Council agreed at the meeting in March 2024 our medium-term financial plan (MTFP) for 2024-25 to 2026-27.

Between 2010 and 2024, the council has had to achieve savings of £369 million due to Government imposed funding cuts and cost pressures. We have sought to do this in a controlled manner and by taking a medium-term approach as far as possible. As well as meeting our legal responsibility to set a balanced budget, we have sought to achieve the following objectives through our medium-term financial planning process:

- Improving value for money;
- Maintaining financial resilience; and
- Managing significant financial risks.

Our medium-term plan is underpinned by the following key principles:

- Allocation of available resources in line with our priorities and to fulfil statutory duties and business critical requirements.
- Assessment of future resources and cost pressures in line with a mid-case scenario rather than a worst-case or best-case scenario – with key assumptions subject to sensitivity analysis.

- Prudent and planned use of reserves to fund permanent expenditure.
- Risk assessed level of reserves and balances to mitigate potential financial liabilities and commitments. Other reserves maintained to hold funding received but not yet spent.
- Maximisation of capital receipts from disposals where this is the most cost-effective option.
- Maximisation of external grant funding where this meets our priorities.
- Maximisation of fees and charges to fully recover the costs of providing discretionary services except when a specific decision has been made to subsidise these services in line with the council's priorities.
- Maximisation of income generated across all areas of the council and prompt collection of all amounts owed to us to minimise bad debts.
- Prudent use of our borrowing powers to undertake capital investment that is not funded by capital receipts, grants or contributions from third parties.
- Strategic approach to asset management across all asset types.
- Promotion of invest to save opportunities funded by prudential borrowing via risk-assessed business cases.
- Provision of revenue funding to invest in service transformation following development and approval of business cases.
- Effective management and forecasting of our day-to-day and longer-term cash flow requirements.
- Minimisation of treasury management risks, including smoothing out the debt maturity profile.
- Full integration of revenue and capital financial decision-making processes, to ensure the revenue implications of capital projects are accurately reflected in the medium-term plan and annual budget.
- Production of detailed implementation plans and risk assessments for all savings proposals.
- Sign off all revenue budgets by the relevant senior manager before the start of the financial year.
- Regular monitoring of all revenue and capital budgets by the relevant manager and robust management action to address any unplanned variances that arise.

The medium-term financial plan has been developed in the context of significant economic disruption, with continued high inflation which is a key contributing factor to the current cost of living crisis. In response, the Bank of England has continued to increase interest rates this year.

CPI was below 4% between 2011-12 and 2020-21, falling to 0.7% in March 2021. Since this date, inflation has increased significantly, peaking at 11.1% in October 2022. Inflation has fallen since this peak but currently remains above the long-term average (4% as at December 2023) and therefore continues to place pressure on the city council's budget. Inflation continued to fall since budget setting and is reported at 2.3% in April 2024.

The Bank of England Base Interest Rate has also increased substantially in recent years. The interest rate has been below 1% for most of the period since 2010 and was increased to 1.25% in June 2022. This has subsequently been increased throughout the period since and was at 5.25% at budget setting in February 2024, it is due to be reviewed in June 2024.

Low interest rates between 2010 and 2021 meant that the council could borrow long-term at a relatively low and fixed rate of interest, and therefore the council's cost of borrowing was relatively low. However, the amount of interest receivable on the cash balances was also low during this period.

The interest rate rises in recent years have made new borrowing more expensive, which has had an impact on the council's ability to fund capital investment through borrowing as the cost of financing has increased. However, the council does benefit from higher interest receivable on its cash balances.

The rise in interest rates places an increased financial burden on many residents as mortgage rates have also risen in recent years. This also impacts many residents who are in the private rented sector due to the indirect impact on rents.

These factors have had and are having an impact on the city and its residents, as well as the council's budget. The council's proposals reflect the impact of increased inflation and pay seen in 2022-23, 2023-24 and expected to continue in 2024-25. The savings proposed have been developed within the context of the council's overarching priorities of mitigating the cost of living crisis for our residents, reducing poverty and achieving the council's Net Zero ambitions

The net revenue budget is expected to be £281.2m in 2024-25 and to increase to £298.1 million in 2026-27. However, as can be seen from Table 3 below, significant savings are required in all years due mainly to cost pressures; further details of 2024-25 savings are set out in the MTFP.

Table 3 – annual budget changes

All figures in £m	**2024-25**	**2025-26**	**2026-27**
Previous year's net revenue budget	262.2	281.2	289.5
Cost pressures	31.3	30.2	28.1
Growth	2.2	2.0	2.0
Annual savings required	(14.4)	(23.8)	(21.5)
This year's net revenue budget	**281.2**	**289.5**	**298.1**

The HRA revenue budget is expected to break-even in 2024-25 after the maximum rent increase has been applied based on CPI plus 1%, which is 7.7%. The HRA revenue budget is facing the same financial challenges as the General Fund with significant pay and non-pay inflationary cost pressures and the revenue costs associated with the HRA's capital programme. A breakdown of the HRA budget is available at Appendix 7 of the MTFP.

Table 4 sets out the planned capital investment for 2023-24 to 2026-27 between the General Fund and HRA.

Table 4 – planned capital investment

All figures in £m	2023-24	2024-25	2025-26	2026-27
General Fund	81.4	97.8	80.0	80.0
HRA	64.2	57.7	50.0	50.0
TOTAL	**145.6**	**155.5**	**130.0**	**130.0**

An assessment of future finances and cash flows, twelve months beyond the intended publication of audited financial statements on 30 September 2024 has been undertaken with the conclusion that the preparation of accounts on a going concern basis remains appropriate.

In November 2023, Newcastle City Council Cabinet agreed that the activities of our arms length management organisation (ALMO), Your Homes Newcastle (YHN), would transfer back to the City Council from 1 July 2024.

In November 2023 the City Council cabinet agreed to establish a new mayoral combined authority which covers the seven North East Councils and to the abolish the existing combined authorities, NECA and NTCA. The new authority will be known as the North East Combined Authority (NE Combined Authority). The new authority was formed on the 7th May 2024.

18. The Statement of Accounts

The Statement of Accounts is set out in the accompanying document. They consist of the following statements that are required to be prepared under the Code of Practice:

Movement in Reserves Statement (Statement of Accounts page 11)

This statement shows the movement during the year on the different reserves held by the Council, analysed into usable and unusable reserves. Usable reserves may be utilised to fund expenditure or reduce local taxation. This is subject to the requirement to maintain a prudent level of reserves or account for any statutory limitations on their use (e.g. the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt). Unusable reserves have a specific legislative or accounting purpose and generally consist of timing differences between accounting requirements and the underlying resource position of the Council.

The ‘Total Comprehensive Income & Expenditure’ surplus or deficit is analysed in further detail on the Comprehensive Income and Expenditure Statement which is shown on page 12 of the Statement of Accounts.

The Movement in Reserves statement also shows discretionary transfers to / from earmarked reserves.

Comprehensive Income and Expenditure Statement (Statement of Accounts page 12)

This statement shows the full cost of providing services during the year in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Local authorities raise taxation to cover expenditure in accordance with regulations, which may be different from the cost of services in accounting terms.

The Comprehensive Income and Expenditure Statement on page 12 reflects the current Directorate reporting structure in order to report the service analysis on the basis of the organisational structure under which the local authority operates. The services contained within each Directorate heading are as follows:

Assistant Chief Executive

- Climate Change
- Communication Services
- Communities
- Policy and Performance

Adult Social Care and Integrated Services

- Integrated Services
    - Care Services
    - Commissioning
    - Active Inclusion
    - Inclusion and Prevention
    - Newcastle Neighbourhoods
- Learning Disability
- Mental Health
- Older People
- Other Social Care Services
- Physical Disability

Children, Education and Skills

- Children, Education and Skills Strategy and Commissioning
- Children's Social Care
- Early Help and Family Support
- Education (Schools Block and Mainstream)

Operations & Regulatory Services

- Business Management
- Democratic Services
- Facilities Services and Civic Management
- ICT
- Legal Services

- Local Services
- Operations
- Parking
- Public Safety & Regulation
- Repairs & Construction Services

Place

- Capital Investment
- Commercial Development & Property
- Development Management
- Economic Development
- Fairer Housing Unit
- Museums, Arts and Culture
- Transport

Public Health Service

- Public Health

Finance

- Audit, Risk and Insurance
- Exchequer Services
- Finance
- Procurement
- Revenues and Benefits

Workforce and Inclusion

- Health and Safety
- Human Resources
- Organisational Development
- Training Schemes

The Council amended it's organisational structure with an effective date of 1 April 2024 for financial reporting purposes, therefore the 2024/25 accounts will be reported in line with the new organisational structure.

Balance Sheet (Statement of Accounts page 13)

The Balance Sheet shows the value of all assets and liabilities at the start and end of the year. The net assets of the Council (i.e. assets less liabilities) are matched by the Council's reserves.

Cash Flow Statement (Statement of Accounts page 14)

This statement shows the changes in cash and cash equivalents of the Council during the year. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The 'net cash flow from Operating Activities' is a reflection of the extent to which the operations of the Council are funded from taxation, grant income and /or fees and charges. 'Investing Activities' reflects the extent to which the Council has invested in assets that will be used to deliver services over a number of years. 'Financing Activities' reflects the extent to which the Council has sought additional funding to support its capital investment plans.

Housing Revenue Account - HRA (Statement of Accounts pages 135 to 141)

This account reflects the statutory obligation to 'ring-fence' and show separately the major elements of the housing revenue expenditure (repairs and maintenance, administration and capital financing costs) and how this is met by rents, subsidies and other income. Included within the section on the HRA is the Statement of Movement on the HRA, which discloses how the HRA Income & Expenditure Account surplus or deficit for the year reconciles to the movement on the HRA balance for the year.

Collection Fund (Statement of Accounts pages 142 to 146)

This statement summarises the transactions of the Collection Fund, a statutory fund distinct from the General Fund of the Council. The Collection Fund accounts independently for income relating to Council Tax and Business Rates on behalf of those bodies (including the Council's own General Fund) for whom the income has been raised.

The costs of administering the Collection Fund are accounted for in the General Fund. Collection Fund balances are consolidated in the Council's balance sheet.

Group Financial Statements and Notes (pages 148 to 176)

These statements report the financial picture of all activities conducted by the Council, including those delivered through partnership and separate undertakings owned by the Council.

19. Annual Governance Statement

To accompany the Narrative Report and Statement of Accounts, the leadership of the Council prepares an Annual Governance Statement that sets out the principal arrangements that operate to ensure proper governance of the Council’s affairs and the stewardship of resources at its disposal. It also outlines the principal arrangements that are in place to ensure that a sound system of internal control is maintained.

20. Statement of Responsibilities

A requirement from the *2023/24 Code of Practice on Local Authority Accounting in the United Kingdom* is that each local authority should provide a Statement of Responsibilities which sets out the responsibilities of the authority and the Chief Financial Officer in respect of the Statement of Accounts:

The Authority's Responsibilities

The authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- Approve the Statement of Accounts (England and Wales only)

The Chief Finance Officer's Responsibilities

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

In preparing this Statement of Accounts, the Chief Finance Officer has:

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

The Chief Financial Officer has also:

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

21. Further Information Available to Council Tax Payers

Access to this report, the accounts and the Annual Governance Statement will be made available to the general public via the Council's website. If, however, you wish to purchase copies, a nominal charge of £5.00 will usually be requested to cover printing costs. If this information is needed in another format or language please use the contact details below.

As part of the Council's programme of continuous improvement we are striving to improve our system of reporting back to users of services. If you have any problems understanding this publication, any general enquiries on the accounts or have any suggestions on how it may be improved, please contact:

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