AUDIT AND GOVERNANCE COMMITTEE

AGENDA

Meeting to be held in the Civic Centre (Committee Room No. 1) on Friday 27 September 2013 at 1.30pm

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1.	**Receipt of Declarations of Interest (if any)**	
2.	**Apologies**	
3.	**Minutes of the Meeting of the Committee held on 28 June 2013** (Copy attached.)	1
4.	**Corporate Assurance Map – Update 2013/2014** Report of the Head of Corporate Assurance and Procurement (copy attached).	13
5.	**Public Sector Internal Audit Standards** Report of the Executive Director of Commercial and Corporate Services (copy attached).	43
6.	**Treasury Management – Second Quarterly Review 2013/2014** Report of the Executive Director of Commercial and Corporate Services (copy attached).	49
7.	**Audited Statement of Accounts 2012/2013** Report of the Executive Director of Commercial and Corporate Services (copy attached).	67

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ELAINE WAUGH
Head of Law and Governance

Civic Centre
SUNDERLAND

19 September 2013

Sunderland City Council

Item No. 3

AUDIT AND GOVERNANCE COMMITTEE
Friday 28 June 2013

Present:

Mr G N Cook

Councillors Farthing, Forbes, Speding, T Wright and Mr J P Paterson.

In Attendance:

Malcolm Page (Executive Director, Commercial and Corporate Services), Paul Davies (Head of Corporate Assurance and Procurement), Rhiannon Hood (Assistant Head of Law and Governance), Tracy Davis (Audit, Risk and Assurance Manager), Dennis Napier (Assistant Head of Financial Resources), Gavin Barker (Mazars), Cathie Eddowes (Mazars), Susan McNair (PWC) and Gillian Kelly (Principal Governance Services Officer).

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

Apologies for absence were received from Councillor N Wright.

Minutes

1. RESOLVED that the minutes of the meeting of the Committee held on 22 March 2013 be confirmed and signed by the Chair as a correct record.

Update on Current and Future Key Developments

The Executive Director of Commercial and Corporate Services provided a verbal update to the Committee on the current issues affecting the Council.

The Executive Director stated that the recent Government Spending Review had continued the policy of fiscal tightening with social care being the only area which would potentially see some development.

The Department for Communities and Local Government (DCLG) was to experience budget reductions of 10% in 2015/2016 and the Executive Director stated that as the authority had already planned prudently for the forthcoming years, he did not believe that this would alter the current plans in a major way.

It had been confirmed that the Council Tax freeze grant component would be available again in 2014/2015 and 2015/2016 and it was up to individual local authorities if they decided to take the freeze option.

The headlines from the Spending Review had included previously announced funding for infrastructure and investments and a £2billion fund for Local Enterprise Partnerships. There was also early information about the next EU Fund Programme and the news on this related to Tyne and Wear was more positive than expected.

The Executive Director also referred to the Combined Authority which the Tyne and Wear authorities and Durham and Northumberland Councils had agreed to establish. The Combined Authority would primarily deal with skills, transport and economic development across the LA7 area.

The Council continued to work in line with its Medium Term Financial Strategy to 2016. New service delivery models were being designed to ensure that frontline services were being protected. This would present some different demands and challenges to the way the Council managed its business but the financial resilience of the authority remained strong.

The Chair enquired about funding for the Combined Authority and Councillor Wright asked about its relationship with the Local Enterprise Partnership. The Executive Director reported that the funding had not yet been determined but that the primary purpose of the Combined Authority was to be a receptacle for funds being received from the Government. All of the seven local authorities involved had agreed that Combined Authority should cost the same as, or less than, existing spend.

The Combined Authority and the Local Enterprise Partnership (LEP) had identical geographies, however, the Combined Authority was a legal entity whereas the LEP was not. Details about the human resources required for the Combined Authority had not yet been determined as a negotiation process would now take place with the Government prior to the launch of the Combined Authority in April 2013. There would be a relationship between the Authority and LEP but this was also to be worked through.

Having thanked the Executive Director for the update, the Committee: -

2. RESOLVED that the information be noted.

Annual Governance Review/Annual Governance Statement

The Executive Director of Commercial and Corporate Services presented a report providing details of the 2012/2013 Annual Governance Review, the Corporate Assurance Map at the end of the year and the Internal Audit opinion on the adequacy of the overall system of internal control. The report also included the draft Annual Governance Statement and a draft revised Local Code of Corporate Governance.

The Head of Corporate Assurance and Procurement reported that the Council was required to produce an Annual Governance Statement every year and that this was prepared against the backdrop of the Council's Local Code of Corporate Governance. The Local Code had also been reviewed and some of the language within it revised to ensure it remained up to date and effective. As a result of the Annual Governance Review, an improvement plan had also been drawn up with a number of actions for the year ahead.

Councillor Farthing made reference to asset management and that some local authorities had been found to be selling assets without a proper valuation, and asked which Council policy would cover this area of business.

The Executive Director highlighted that the Council had sold very little of its large assets – land and buildings – in recent years and had now taken the view that it would hold on to its assets until the value increased. The Head of Corporate Assurance and Procurement advised that there were financial procedure rules within the Council's Constitution which would be followed with regard to the disposal of assets and this was reflected in the asset management element of the Corporate Assurance Map.

Councillor Forbes raised the issue of business continuity not being up to date and the Audit, Risk and Assurance Manager reported that all updates had been sent to senior management and it was now just a matter of reflecting these changes in the documentation.

Councillor Wright noted that a number of audits were cancelled after schools had converted to academies and asked if this meant that they were automatically removed from the Internal Audit system. The Head of Corporate Assurance and Procurement explained that Internal Audit provided the audit service for all maintained schools but also offered the service to academies. A number of academies had taken up the service but were not included within the Council Audit Plan as they were now outside the local authority. There was a potential risk for future resources as maintained schools were audited once every three years but it was being recommended that academies were audited annually.

It was highlighted that an exercise had been carried out to identify any duplicate payments and unclaimed VAT covering £1billion of transactions over the past four years. The company engaged to do this work were paid on a commission only basis and there was no cost to the Council in this exercise.

Accordingly the Committee: -

3. RESOLVED that the improvement plan, revised Local Code of Corporate Governance and the draft Annual Governance Statement be agreed.

Annual Report on the Work of the Committee 2012/2013

The Executive Director of Commercial and Corporate Services submitted a report providing a summary of the work undertaken by the Audit and Governance Committee during 2012/2013 and the outcome of the work.

The report outlined the role of the Committee and detailed the matters which had been considered during the course of the year, including the Corporate Assurance Map for 2012/2013, the review of the effectiveness of Internal Audit, the Risk Management Strategy and Policy, the Council's Treasury Management arrangements and the annual Statement of Accounts 2011/2012.

Areas which the Committee was proactively monitoring were also highlighted, such as the implementation of agreed audit recommendations, the Integrated Assurance Framework and the Corporate Risk Profile.

The Chair commented that he felt that the Committee had done a substantial and comprehensive job over the past year. He was pleased with the work that had been done and hoped that the Members of the Council would endorse the report.

The Committee therefore

4. RESOLVED that the annual report of the Committee be approved and presented to the Council for their consideration.

Statement of Accounts 2012/2013 (Subject to Audit)

The Executive Director of Commercial and Corporate Services presented the Council's Statement of Accounts 2012/2013 (Subject to Audit) to the Committee and also presented the draft Letters of Assurance required by the external auditor as part of the final accounts process.

The Statement of Accounts would be certified by the Executive Director and then audited by the Council's external auditor before being brought to the Committee for final approval on 27 September 2013. The Accounts were compliant with the International Financial Reporting Standards and the Executive Director took the opportunity to thank the Assistant Head of Financial Resources and his team for the work which they had done to prepare the Accounts.

He then drew Members' attention to the Foreword to the Accounts which outlined the high level issues from the last financial year. It was noted that the level of Council Tax had been frozen again this year and that Sunderland continued to set the lowest level in Tyne and Wear. There had been a positive and successful outturn for the 2012/2013 budget, with a small underspend which demonstrated the strong financial leadership and control within the organisation. There had been a slight decrease in the Locally Managed Schools Reserve which illustrated the fact that schools were finding the financial climate challenging.

It was emphasised that the Council had made significant savings but was continuing to plan for further reductions and risks, such as the changes which had taken place with regard to the Business Rates Retention system and the Localisation of Council Tax Support.

The Executive Director referred to the section of the Foreword which detailed the work carried out under the Council's Transformation Programme and he highlighted that the workforce had been reduced significantly during the year and this had secured significant savings, however it was recognised that there was now reduced capacity in the organisation.

Members were informed that the Council had agreed to participate in the refinancing of Newcastle International Airport Limited and as a result had acquired additional shares in the Airport, the valuation of which had been reflected in the Accounts at their market value. The Executive Director was confident that these decisions would generate a commercial benefit to the Council over time.

Despite the continued economic downturn, £50m had been invested in the city via the Council's capital programme and it was noted that the authority was well within its borrowing limits and prudently placed. The Foreword also provided narrative on Treasury Management and pensions and provided additional information on progress on the settlement of equal pay claims.

The Executive Director highlighted that the remainder of the Statement of Accounts document set out the income, expenditure and reserves position for the authority and demonstrated that the authority remained financially resilient.

Having considered the report, the Committee: -

5. RESOLVED that: -

   (i) the Statement of Accounts 2012/2013 (Subject to Audit) be noted;

   (ii) the contents of the Letter of Assurance from those charged with governance be approved; and

   (iii) the Letter of Assurance from those charged with discharging management processes and responsibilities be noted.

Treasury Management – Review of Performance 2012/2013

The Executive Director of Commercial and Corporate Services submitted a report outlining the Treasury Management borrowing and investment performance for 2012/2013.

The Committee had received regular reports throughout the year on Treasury Management and were advised that the service continued to contribute significant financial savings which were used to support the Council's revenue budget. The average rate of Council borrowing was at 3.49% which was in the top quartile when

benchmarked against other authorities. The average rate of return on investments was 1.91% against a benchmark rate of 0.39%.
It was highlighted that within the Borrowing Strategy a benchmark financing rate of 4.5% for long term borrowing had been set, however no new borrowing had been taken out.

The report set out the Prudential Indicators for 2012/2013 and the Authorised Borrowing Limit for External Debt and the Committee were told that the Council was well within its guidelines for borrowing and had complied with all of the Treasury Management Prudential Indicators. The Investment Strategy was approved by the Council on an annual basis and had been fully complied with in 2012/2013.

Looking ahead to the next financial year, the Assistant Head of Financial Resources reported that there would be an impact on the Treasury Management Policy if the Government was to divest its shares in banking institutions such as Lloyds TSB. The Council would then have to consider the rating of the institution rather than using the UK Government's rating and the Authorised Lending List would have to be amended to reflect this change.

The Assistant Head of Financial Resources reported that the Chancellor had indicated that the Bank of England base rate was unlikely to change for the foreseeable future and as there was a squeeze on returns from investment, the Council's rate of return was expected to fall during the next financial year.

Councillor Farthing commented that it would be useful to know more about how the Authorised Borrowing Limit was set and suggested that this be addressed at a future Committee training session.

Following consideration of the report, it was: -

6. RESOLVED that Treasury Management performance for 2012/2013 be noted.

Review of Internal Audit 2012/2013

The Executive Director of Commercial and Corporate Services presented a report informing the Committee of the results of the review of Internal Audit undertaken by Mazars, the Council's external auditor.

Cathie Eddowes, representing Mazars, reported that they had carried out a review of Internal Audit in line with the standards set out by CIPFA. The financial year 2012/2013 had been the first that Internal Audit had been operating at a reduced size and the review had found that it was continuing to meet the required standards.

Mazars had reviewed five areas of work in detail and any minor points which had been identified had been dealt with immediately by Internal Audit. The changes to the service as part of the introduction of the Integrated Assurance Framework had now become embedded but it was noted that some key documents were in need of updating to reflect the new structure and processes in place.

The External Auditor’s review concluded that the Internal Audit service continued to meet its professional and statutory duties. The processes which were in place were driven by a Quality System and the detailed review of the files by Mazars did not highlight any significant non-compliance with the Quality System or the Code.

7. RESOLVED that the report be noted.

Review of the Integrated Assurance Framework

The Executive Director of Commercial and Corporate Services submitted a report informing the Committee of the results of the review of the Integrated Assurance Framework which had been undertaken by PricewaterhouseCoopers (PWC).

2012/2013 had been the first year of operation for the Integrated Assurance Framework and PWC, the Council’s Assurance Partner, had been requested to the review the progress made so far in the context of recognising that the Integrated Assurance Framework was a new and innovative development in its formative stages.

Susan McNair of PWC was in attendance to present the report. She commented that very few authorities were adopting this approach due to its complexity, but it was an innovative method and Sunderland was one of the best early adopters. The review highlighted a number of points of good practice and also recommended areas for further development to broaden the approach. The review concluded that the Council had made good progress in implementing the Integrated Assurance Framework and there was a good understanding of how the Framework operated.

The Committee therefore: -

8. RESOLVED that the report be noted.

Framework Underpinning the Corporate Assurance Map

Tracy Davis, Audit, Risk and Assurance Manager, delivered a presentation on the framework underpinning the Corporate Assurance Map.

Tracy explained how each of the elements of the Map were developed. Strategic risks were identified by the Executive Management Team, action areas identified and reviewed through the Corporate Assurance Group and actions monitored by the Risk and Assurance Team.

Management assurance was gained through questionnaires to Heads of Service which covered the key governance arrangements. These were then analysed to provide the levels of assurance displayed in the Corporate Assurance Map. Specialist assurance was obtained through a quarterly assurance schedule which was completed by all specialist functions. The specialist functions were Legal Services, Financial Resources, Schools Financial Resources, Transformation, Programmes and Projects, Strategy, Policy and Performance, Human Resources and Organisational Development and Business Continuity.

The variety of work covered by Risk and Assurance was wide ranging and assurance work could take a variety of different forms including; supporting the development of risk registers, supporting consideration of risks in business/service planning and advising on the establishment of alternative models of service delivery.

The Risk and Assurance team had an extensive work programme at the current time and this would only increase in size. An opinion would only be given if the team was sure that there was enough background to justify the view which was given.

Planned audits were set out in the Internal Audit annual plan and the overall opinion for each risk area was based on the opinions from audits in the current year plus the previous two years. Assurance gathered from external sources could include external auditors, external inspectors and peer reviews.

The Committee thanked the Audit, Risk and Assurance Manager for her presentation and stated that this had enabled them to have a greater understanding of the work that goes on underneath the Corporate Assurance Map.

9. RESOLVED that the presentation be noted.

Corporate Assurance Map – Update 2013/2014

The Head of Corporate Assurance and Procurement presented the updated Corporate Assurance Map which had been reviewed based on the work undertaken so far this year, the Internal Audit opinion on the adequacy of the overall system of internal control and the performance of Internal Audit. The report also covered the key performance measures for Internal Audit.

The Committee were informed that there were no opinions reflected in the Map for the Strategic Risk areas as the Strategic Risk Profile was currently being finalised with the Council's Executive Management team. With regard to the Corporate Risk areas, there were no red boxes and this showed a positive assurance position.

The Head of Corporate Assurance and Procurement highlighted that in November 2012, the external auditor had passed a letter of complaint to the Authority which had made allegations about the relationship between Council officers and Wearside Women in Need (WWIN), a charity which received funding from the Council to provide Housing Related Services.

Internal Audit carried out a full investigation, which was then reviewed by Mazars, and found that there was no evidence that Council officers had acted corruptly in their dealings with WWIN and that although WWIN had consistently submitted their accounts to the Charities Commission late, examination of their financial position showed no reason to discontinue their funding for the remainder of the grant period.

It was acknowledged that while all providers were treated equally, a competitive process had not been undertaken in this case and from April 2014, a procurement process would be in place for the provision of Housing Related Services. Financial monitoring had not been undertaken by the Health, Housing and Adult Services Commissioning Team in 2012/2013 and Internal Audit were currently helping with the strengthening of these arrangements, however an independent value for money assessment in 2011 had been positive.

The Head of Corporate Assurance and Procurement concluded that this had not been an ideal situation, and it should not happen again, however Internal Audit had made recommendations which had already been acted upon to improve the current position.

The Executive Director of Health, Housing and Adult Services was in attendance for this item of business and he took the opportunity to thank officers from Internal Audit who had supported the directorate in addressing this issue. All of the recommendations in the action plan from Internal Audit had been completed or were as complete at they could be at this point in time. The actions were on track with regard to timescales and it was expected that many would be implemented early.

The future procurement arrangements for the provision of Housing Related Services had recently been presented to Cabinet and monitoring reports would be considered by the Directorate Management Team and the Executive Director. Regular meetings were also held with the Cabinet Portfolio Holders and they were provided with the monitoring reports.

Councillor Wright commented that the issue had been dealt with sensibly but queried whether the need for confidentiality had impeded the necessary monitoring in the past. The Executive Director of Health, Housing and Adult Services stated that the assurances which were required did not include any sensitive information.

Councillor Forbes had understood that under the rules for making grants, accounts were required to be submitted once a year and it appeared that the issue with WWIN had been going on for a number of years. The Head of Corporate Assurance and Procurement stated that the present time, there was no requirement for a financial evaluation to be done prior to a grant being awarded and no rule to say that this should be checked once a year if the grant period extended for longer than one year. Internal Audit had made a recommendation that these checks should be made for ‘significant’ grants, which were categorised as those over the value of £50,000.

The Executive Director of Commercial and Corporate Services added that where business went through a competitive process, the appropriate financial checks which had been discussed would be made and the vast majority of the Council’s business went through this process. The Executive Director of Health, Housing and Adult Services acknowledged that the financial checks done in 2009 before the grant was made to WWIN were not sufficient for the period of the grant.

Councillor Forbes made reference to the lack of consultation with service users and queried how this had happened. The Executive Director of Health, Housing and Adult Services responded that while the directorate carried out a lot of consultation in many different ways, on this occasion, it had relied on the consultation which had been done by the provider organisation.

With regard to the original complaint, the Executive Director of Commercial and Corporate Services stated that he had written to the complainant but had not received a response. If there was further correspondence with the complainant, depending on the views expressed, it may be brought back to the Committee.

Gavin Barker of Mazars explained that they had received the complaint initially and had an ongoing relationship with Internal Audit on this type of matter. Mazars had reviewed the work of Internal Audit in detail and found it thorough and comprehensive and there was no evidence of any unlawful practice or of the Council suffering any loss as a result.

It was noted by Councillor Forbes, that the statement that the Council was receiving better value for money under the new arrangements, suggested that it was not receiving a good value service before then. The Head of Corporate Assurance and Procurement explained that, in 2011, the Council had reviewed its way of working in relation to Housing Related Services and allowed organisations to work more flexibly to meet outcomes with reduced resources. At this point, all providers were ranked and assessed by an independent consultant and those who scored the best received the least amount of reduction in funding. WWIN were one of the higher scoring organisations and received the smallest reduction. Overall funding had now been reduced by 26% and the Council was still referring residents to the service and people could also self refer, and this led to the conclusion that the Council was still receiving value for money.

Having noted that all of the Key Performance Indicators had been met, except for the implementation of medium risk recommendations, the Committee: -

10. RESOLVED that the report and the updated Corporate Assurance Map be noted.

External Auditor – Audit Progress Report to June 2013

The Executive Director of Commercial and Corporate Services introduced the Audit Progress Report from the Council's external auditors, covering the period up to June 2013.

Gavin Barker informed the Committee that there continued to be good progress on the 2012/2013 audit and echoed the comments of the Executive Director in respect of the officers who had worked extremely hard to prepare the financial statements and created the conditions for a smooth audit process.

Mazars had made an initial Value for Money assessment which – with the caveat that this would not be final until September – was positive and had found that the Council was in a strong and resilient position and also looked to continually improve.

The report also highlighted a number of emerging issues including; a Practical Guide for Local Authorities on Income Generation, the National Fraud Initiative, the Public Sector Internal Audit Standards and the Local Audit and Accountability Bill.

Councillor Wright asked if there was anything within the Local Audit and Accountability Bill which the Committee needed to be aware of at an early stage and Gavin stated that the main effect of the bill was to abolish the Audit Commission. The bill also provided for local authorities to appoint their own external auditors in the future, having had regard to the recommendations of an independent appointment panel. Further guidance was expected to support the implementation of this proposal and full details would be brought to the Committee in due course.

The bill would amend the legislative framework for council tax referendums and provided for measures which would ensure local authority compliance with the Code of Recommended Practice on Local Authority Publicity.

11. RESOLVED that the Audit Progress Report be noted.

Treasury Management 2013/2014 – First Quarterly Review

The Executive Director of Commercial and Corporate Services presented a report outlining the Treasury Management performance for the first quarter of 2013/2014.

The Treasury Management function continued to consider ways of maximising savings and increasing returns on investments. One way of achieving this was through debt rescheduling, however this had not been possible as yet in 2013/2014 as rates had not been sufficiently favourable. The Council's interest rate on borrowing was low and it continued to benefit from this rate and the ongoing savings from past debt rescheduling exercises.

The Council had approved the Treasury Management Policy and Strategy in March 2013 and within this, the Authorised Borrowing Limit for External Debt had been set at £398.602m for 2013/2014 and the Council was well within this limit.

There was a continuing challenge for the authority in trying to achieve the best rate it could on investments, in line with the policy which had been adopted. The Treasury Management team had achieved a rate of return of 1.07% against a benchmark of 0.36%. The rate of return on investments had fallen markedly in recent months and this trend was expected to continue for the forthcoming year.

It was noted that the Council's Authorised Lending List was required to take into account financial institution mergers and changes in credit ratings and the updated Approved Lending List was shown at Appendix B. Where ratings institutions differed in their views, the lowest rating was taken into account as part of the Council's prudent approach.

Councillor Farthing commented that the former Governor of the Bank of England had suggested that banks needed to have more cash available in order to improve the rate of return on investments. The Assistant Head of Financial Resources stated that it could sometimes be the case that if banks wished to get more funding, local authorities were seen as a safe option. The Council did not place any funds for longer than one year and would always examine any opportunities very carefully before investing funds to ensure it safeguarded the amount invested.

Having considered the report, the Committee: -

12. RESOLVED that: -

(i) the Treasury Management performance for the first quarter of 2013/2014 be noted; and

(ii) the amendments to the Lending List Criteria at Appendix A and the Approved Lending List at Appendix B be noted.

Committee Membership

The Chair announced that Mr Paterson was retiring from the Committee. On behalf of the Audit and Governance Committee he thanked Mr Paterson for the valuable contribution he had made during his time as a Member.

Mr Paterson thanked the Members and officers for their kind words and wished them all the best for the future.

(Signed) G N COOK
Chairman

Sunderland City Council

Item No. 4

AUDIT AND GOVERNANCE COMMITTEE 27 September 2013

CORPORATE ASSURANCE MAP – UPDATE 2013/14

Report of the Head of Corporate Assurance and Procurement

1. Purpose of Report

1.1 To enable the Audit and Governance Committee to consider the updated Corporate Assurance Map based on work undertaken so far during the year, the Internal Audit opinion on the adequacy of the overall system of internal control, and the performance of Internal Audit.

1.2 For completeness, the report covers Internal Audit's key performance measures. The report does not set out the work undertaken for associated bodies for which the Council has a lead responsibility, this is a matter for the bodies concerned.

2. Description of Decision

2.1 The Audit and Governance Committee are asked to note the report and consider the updated Corporate Assurance Map (the Map).

3. Background

3.1 In March 2013 the Committee approved the proposed Corporate Assurance Map for 2013/14 and the plans of work for Internal Audit and Risk & Assurance.

3.2 At that time, the Map was prepared based on knowledge of the assurance position from Internal Audit work, a risk assessment covering all of the corporate risk areas and consultation with the Chief Executive, all Executive Directors and key officers across the Council.

3.3 A key feature of the new integrated assurance framework is to co-ordinate assurance that could be provided by other sources within the Council and external sources and consider if there are any gaps or duplication in the assurance provided.

4. Updated Corporate Assurance Map

The updated Corporate Assurance Map, as at 2nd September 2013, is shown overleaf. It has been updated based on the work to date of the Internal Audit, and Risk and Assurance Teams and assurance from other sources within the Council and external sources.

Corporate Assurance Map

Assurance Position (as at 2nd September 2013) (Cumulative)		2013/14									
		1st Line	2nd Line							3rd Line	
		Management Assurance	Other Internal Assurance Activity						Risk and Assurance	Internal Audit	External Assurance
			Legal Services	Financial Resources	Transformation Programmes and Projects	Strategy, Policy and Performance	HR &OD	Business Continuity			
Strategic Risk Areas											
Current Risk	Residual Risk										
People									X		
Place									X		
Economy									X		
Organisational				X					X		X
Corporate Risk Areas											
Customer Focus / Service		X				X			X	X	
Legality			X						X		
Service / Business Planning		X				X			X	X	
Programme and Project Management		X			X				X		
Change Management					X		X		X		
Partnerships		X							X	X	
Business Continuity Planning		X						X		X	
Procurement		X							X	X	
Relationship and Contract Management										X	
Financial Management		X		X					X	X	X
Human Resource Management		X					X		X	X	
Information Governance		X	X						X	X	
Performance Management		X				X			X	X	
Asset Management		X							X	X	
ICT Strategy and Delivery									X	X	
Fraud and Corruption		X								X	
Risk Management (Service Delivery)		X							X		
Housing Benefits										X	
Schools		X		X					X	X	

Key: X=activity planned, White=no coverage, Green=full / substantial assurance, Amber=moderate assurance, Red=limited / no assurance

Strategic Risk Areas

4.1 The top section of the Map relates to the strategic risks identified in the Strategic Risk Profile. The Profile has been updated with EMT for 2013/14 and is attached at Appendix 1. Given the longer term nature of these risks the current risk rating is shown (i.e. what would be the level of risk if no actions were taken to manage the risks), and the residual risk level (i.e. the level of risk taking into account ongoing actions and planned actions). Progress against each of the mitigating actions is assessed with the lead officers and assurance levels determined.

Assurance from Internal Audit

4.2 The detailed results of Internal Audit work are shown at Appendix 2, with the summary outcomes shown on the Map. Appendix 2 now shows all of the opinions, including those from previous years, that have been considered in determining the overall assurance level.

4.3 The last Update Report provided information regarding improvements required in relation to Housing Related Support arrangements. A review of progress in implementing the agreed actions has shown that all of the actions that could have been implemented to date have been. Internal Audit will continue to follow-up progress until all actions have been implemented.

Assurance from Risk and Assurance Team

4.4 Areas that the Risk and Assurance Team are currently involved in are shown at Appendix 3. Much of their work is ongoing over a period of time due to the nature of their role, however, where ongoing assurance can be provided from their work this is shown on the Map. Assurance work within the quarter has included:

- Support to the development of alternative service delivery vehicles such as the Local Asset Backed Vehicle, Care and Support Project, and the future of ICT delivery.

- Providing assurance on the delivery of the Transformation Programme.

- Providing assurance on the delivery of the Workforce Transformation project (pay and grading review).

- Work has also been undertaken regarding Equal Pay Claims.

- Supporting the delivery of the Workforce Planning project to help Heads of Service achieve their efficiency targets.

- Significant work in support of the Customer Service Network migration.

- Intelligence Hub.

Assurance from others within the Council

4.5 Assurance provided from others within the Council is shown in the Corporate Assurance Map above. The levels of assurance have not changed since June 2013. However, assurance provided by Strategy, Policy and Performance now includes a view on equalities. Advice regarding the requirements for assessing equalities in projects is provided, however the arrangements for carrying out the assessments are not yet fully developed. Improvements are being made in this area and being monitored by both Strategy, Policy and Performance and the Risk and Assurance Team.

4.6 The assurance level provided by the Business Continuity Officer has been Amber over the last two reports. This has mainly been due to the need for the arrangements within Children's Services to be brought up to date. Work is ongoing in this area.

Assurance from Management

4.7 Arrangements are in place to obtain assurance from service management in a number of areas. These arrangements are being further developed with the support of the assurance partner, PricewaterhouseCoopers. Members will note that the majority of risk areas are shown as having substantial assurance.

Assurance from External Sources

4.8 The Map shows five areas where Full or Substantial assurance has been received from external sources.

Overall

4.9 The overall level of assurance for all risk areas has not changed since June 2013.

Review of the Integrated Assurance Framework

4.10 The assurance partner, PricewaterhouseCoopers, has carried out a review of the implementation of the Integrated Assurance Framework, the results of which were reported to the last Audit and Governance Committee. Of the seven agreed actions three are complete, three are in progress and one will be implemented once all of the other actions have been finalised.

5. Internal Audit Performance

5.1 The performance in relation to targets set for Internal Audit is shown at Appendix 4. Performance is on target for all KPI's apart from:

- The percentage of audit reports issued within 15 days of completion of the fieldwork, this currently stands at 88% against a target of 90%, and

- The current percentage of medium risk recommendations implemented (excluding schools), which now stands at 88%.

A summary of the performance by directorate for medium risk recommendations is shown below:

Directorate / Body	Implementation Rate
People	84%
Office of the Chief Executive	87%
Commercial and Corporate Services	94%
Implementation Rate (exc. Schools)	**88%**
Schools	82%
Total Implementation Rate	**85%**

7. Conclusions

7.1 This report provides an update on the assurance provided in the Corporate Assurance Map, work ongoing in relation to the Internal Audit and Risk & Assurance Teams and performance targets for Internal Audit.

7.2 Results of the work undertaken so far during the year have not highlighted any issues which affect the opinion that overall throughout the Council there continues to be an adequate system of internal control.

8. Recommendations

8.1 The Audit and Governance Committee are asked to note the report and consider the updated Corporate Assurance Map.

Appendix 1

Strategic Risk Profile

People
Desired Outcomes A city where everyone is as healthy as they can be and enjoys a good standard of wellbeing A city with high levels of skills, educational attainment and participation A city which is, and feels, even safer and more secure A city that ensures people are able to look after themselves wherever possible

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I

PE 1 Failure to ensure appropriate health and wellbeing services to children and adults, in response to financial pressures	Neil Revely, ED of Health, Housing & Adult Services	3x4 = 12	• Implement the Health and Wellbeing Strategy to:
			  ○ Target prevention and early intervention
			  ○ Build capacity and reduce dependency to help individuals to be more independent and self-sustaining
			• Manage demand by empowering customers to take up viable alternatives to council services
			• Coordinate and implement public health campaigns and promotional activities working with relevant external public health related organisations
			
			Progress
			• Newly created Health and Wellbeing Board Health have taken responsibility for delivering the Health and Wellbeing Strategy
			• Joint Strategic Needs Assessment to be undertaken by October 2013
				2x4 = 8

PE 2 We fail to encourage more people to help themselves and communities to come up with local solutions	Sarah Reed, Assistant Chief Executive	3x3 = 9	• As a Community Leadership Council we will strengthen self-help capacity in our communities • Deliver the Voluntary Community Sector Relationship Transition project • Implement the Community Resilience Plan, Health and Wellbeing Strategy and Strengthening Families Strategy to develop asset based approaches to increase independence and self-reliance • Through the “PEOPLE” strand of communications	1x3 = 3

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
			deliver an integrated campaign, which encourages people to help themselves **Progress** • Continuing to develop the approach to being a Community Leadership Council • Developing the scope of the VCS Relationship project	
PE 3 Despite improvement, a range of health indicators across the city continue to be below national averages including levels of child and adult obesity, rates of breastfeeding and levels of teenage pregnancy	Neil Revely, ED of Health, Housing & Adult Services	**3x3 = 9**	• Deliver the Public Health improvement responsibilities • Progress the delivery plan and performance management to address improvement in health indicators **Progress** • Following the transfer of Public Health to the Council, an integrated approach with other service areas is being developed to address health issues	**2x3 =6**
PE 4 Economic conditions will mean that our interventions to help people, particularly young people, to gain employment will not be as effective as intended	Janet Johnson, Deputy Chief Executive	**3x3 = 9**	• Extend employment opportunities for people out of work and to ensure job progression and mobility for those people in work through the implementation of the Sunderland Employment Strategy • Continue to deliver (and develop) early intervention and prevention practices to support young people who are a risk of becoming NEET • Maximise learning opportunities afforded by the Youth Contract and by 3rd sector providers to young people requiring most support, to move them towards employment opportunities. • The Education Leadership Board to continue to improve the links between schools and employers • Extend the environmental apprenticeship scheme across other Streetscene services **Progress** • Sunderland Economic Masterplan “Aim 4 Group” are to review the effectiveness of the Employment Strategy • Education Leadership Board continue to work with business leaders to encourage links with schools	**2x3 = 6**

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
PE 5 The current skill levels of young people and adults are not sufficient to meet the current and future needs of the economy	Neil Revely, ED of Health, Housing & Adult Services	3x3 = 9	• Implement the Sunderland Skills Strategy to consider employer demand and the skills needed to fill any expected shortages or gaps within the growth sectors • Implement the Family, Adult and Community Learning Strategy which outlines the priorities and principles necessary to meet the learning needs of adults and families • The Education Leadership Board to continue to Improve links between schools and employers • Set up the Combined Authority who's remit will include regional skills issues **Progress** • "Aim 4 Group" is to focus on the City Deal aspects of the Skills Strategy • Combined Authority to be in place by April 2014	2x3 = 6
PE 6 Increasing poverty levels and community cohesion issues arising out of welfare reforms and economic conditions	Sarah Reed, Assistant Chief Executive	3x3 = 9	• Continue to deliver the Welfare Reform "Social Fund" • Prepare for the introduction of "Universal Credit" • Implement the Community Resilience Delivery Plan • Continue to implement the Child and Family Poverty Strategy • Deliver the Strengthening Families project • Develop and implement a delivery plan for the Access to Housing Strategy **Progress** • "Social Fund" in place and continues to provide support to local communities • Uncertainty remains over the introduction of "Universal Credit"	2x3 = 6
PE 7 Implementation of the Health & Wellbeing Strategy may not effectively target the most vulnerable groups resulting in widening inequalities	Neil Revely, ED of Health, Housing & Adult Services	2x3 = 6	• Implement the Health and Wellbeing Strategy, delivery plan and performance management arrangements • Continue to liaise with the Clinical Commissioning Group and GPs to gain a better understanding of vulnerable groups • Develop an asset based approach to delivery, making better use of assets that already exist in families and	1x3 = 3

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
			communities **Progress** • Health and Wellbeing Board monitor the actions to reduce inequalities	
PE 8 Failure to align partner services to ensure we have a city that is safe and secure	Sarah Reed, Assistant Chief Executive	**2x2 = 4**	• Continue to deliver the Safer Sunderland Partnership's delivery plan: tackling alcohol, drugs, domestic violence, violent crime, anti-social behaviour, safety and feelings of safety and re-offending • Apply the Strengthening Families approach to support people out of offending **Progress** • The multi agency Strengthening Families Programme is starting to record success in reducing offending	**1x2 = 2**

PLACE
Desired Outcomes An attractive, modern city where people choose to invest, live, work and spend their leisure time. A responsible, well looked-after city that is adaptable to change. A well connected city. A city where cultural identity and vibrancy act as a significant attraction

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
PL 1 The Local Development Framework is not adopted thereby restricting development opportunities for the City	Janet Johnson, Deputy Chief Executive	**2x4 = 8**	• Develop the LDF to ensure it meets the required Government criteria **Progress** • Draft plan is currently out for consultation. Publication plan expected to be develop by May 2014	**1x4 = 4**
PL 2 Failure to deliver our place-shaping activities in a coordinated manner (including economic housing and transport investments)	Janet Johnson, Deputy Chief Executive	**2x3 = 6**	• Adopt an ambitious, developer/investor friendly Core Strategy (Land Use Plan) that will guide high quality future physical development that is synonymous with a modern, vibrant, aspirational city • Develop and implement the Sunderland Housing Strategy • Set up the “Combined Authority” that will have responsibility for the creation of an area wide integrated transport authority and preparation of a local transport plan • Utilise all available funding opportunities to improve infrastructure, e.g. Regional Growth Fund **Progress** • Combined Authority expected to be in place by April 2014 • Schemes being developed to access the RGF funding.	**1x3 = 3**
PL 3 Delivery of capital investment priorities is too slow to realise opportunities available	Janet Johnson, Deputy Chief Executive	**Score 2x3 = 6**	• Development of a Local Asset Backed Vehicle (LABV) to deliver accelerated regeneration and economic development activity	**1x3 = 3**

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
			• Continue to support the development of priority areas including ○ Vaux site ○ Sunniside ○ Seaburn ○ City square ○ Minster Quarter **Progress** • Procurement process for the LABV is ongoing	
PL 4 Inability to stimulate sufficient inward investment for development projects, particularly in relation to the City Centre	Janet Johnson, Deputy Chief Executive	**2x3 = 6**	• Promote the City nationally and internationally as a place to invest, through the Make it Sunderland campaign • Private sector partners to develop a Business Improvement District proposal providing resources that will contribute to physical improvement in the city centre **Progress** • Make it Sunderland campaign continues to promote investment in the City	**1x3 = 3**
PL 5 The City's infrastructure does not provide appropriate access and movement for all, including those with restricted mobility	Neil Revely, ED of Health, Housing & Adult Services	**2x2 = 4**	• Continue to engage with Nexus to develop Community Transport, taking into consideration the market and the commercial viability of transport routes • Engage with the Voluntary and Community sector to provide access for people with restricted mobility (e.g. volunteer drivers) **Progress** • On going engagement with NEXUS in relation to community transport	**2x2 = 4**
PL 6 Fail to agree and implement a Cultural Strategy and associated action plan	Neil Revely, ED of Health, Housing & Adult Services	**2x2 = 4**	• Develop Cultural Strategy and implementation plan **Progress** • Cultural Partnership formed to bring a wider base to the development of the strategy	**1x2 = 2**

ECONOMY

Desired Outcomes
A national hub of the low carbon economy
A prosperous and well connected waterfront city centre
An inclusive city economy for all ages

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
EC 1 The increased costs of university fees and restricted access to appropriate learning opportunities will dissuade some young people from attending HE and skills levels will not increase as quickly as anticipated	Janet Johnson, Deputy Chief Executive	3x3 = 9	• Education Leadership Board to promote the benefits of higher education • North East Local Enterprise Partnership (NELEP) to support the promotion of higher education **Progress** • The recommendations of the economic review of the NELEP undertaken by Lord Adonis(2013) confirmed the importance of the NELEP supporting higher education	2x3 = 6
EC 2 The City doesn't attract inward investors because of a lack of sites / finance	Janet Johnson, Deputy Chief Executive	3x3 = 9	• Development of a Local Asset Backed Vehicle (LABV) to leverage private sector funding and investment in the City • Allocation of appropriate employment sites through the LDF process **Progress** • Procurement process for the LABV is ongoing	2x3 = 6
EC 3 The more highly qualified/skilled people in the City will leave to find suitable work outside of the region, reducing the proportion of highly qualified/skilled people living in the City	Janet Johnson, Deputy Chief Executive	3x3 = 9	• Deliver an Employment Strategy that sets the direction for our efforts to attract employment opportunities to the city, across a wide range of sectors • Implement a Housing Investment Plan that ensures we have the right range and types of housing, in the right locations, to retain existing residents and attract new people into the City **Progress** • Housing Investment Plan to be included in the Housing Strategy	2x3 = 6

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
EC 4 Inability to deliver on the New Wear Crossing in line with the planned timescales	Janet Johnson, Deputy Chief Executive	3x3 = 9	• Complete the revised procurement phase and deliver the construction phase of the New Wear Crossing **Progress** • New Wear Crossing is being re-planned.	2x3 = 6
EC 5 Fail to ensure plans are in place to support carers, people with disabilities and mental health issues into or to maintain employment	Neil Revely, ED of Health, Housing & Adult Services	2x4 = 8	• Continue to engage with Remploy, who provide sustainable employment opportunities for disabled people and those who experience complex barriers to work • Continue to support the Carers Strategy Group **Progress** • On going engagement with Remploy and the Carers Strategy Group	1x4 = 4
EC 6 Pace and scale of regeneration in the City Centre does not satisfy economic prosperity ambitions	Janet Johnson, Deputy Chief Executive	2x4 = 8	• Progress development opportunities, e.g. Vaux site, City Square, Sunniside • Support the Business Improvement District proposal **Progress** • City Centre businesses have voted to form a Business Improvement District. A BID company should be set up by April 13 • St Mary's Way realignment is underway, which will support development of the Vaux Site	1x4 = 4
EC 7 Partners do not have a coordinated approach to supporting, developing and attracting business to the City	Janet Johnson, Deputy Chief Executive	2x2 = 4	• Continue to support the Business and Innovation Centre which provides a joint approach for business support • Implement the Enterprise and Innovation Strategy • Continue to develop the North East Local Enterprise Partnership (NELEP) Enterprise Zones **Progress** • Enterprise and Innovation Strategy signed off by the Economic Leadership Board • Enterprise Zones continue to attract new businesses	1x2 = 2

ORGANISATION
Desired Outcomes Achieving Community Leadership. Delivering High Quality Services That Are Led By Our Customers' Needs Ensuring Value for Money and Productive Use Of Resources

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
OR 1 The Council and the community may not have the required skills and capacity to deliver the City's priorities	Sue Stanhope, Director of HR & OD Sarah Reed, Assistant Chief Executive	3x3 = 9	• Focus upon strengthening local self-help capacity, In order to meet our aspirations as a Community Leadership Council • Utilise workforce planning to develop and transfer skills across the council • Deliver the Voluntary and Community Sector Relationship Transition project **Progress** • VCS project looking to enable volunteer and community groups to support delivery of City priorities	2x3 = 6
OR 2 Lack of pace, leadership, innovation and commitment resulting in inability to achieve the required outcomes	Malcolm Page, ED of Commercial and Corporate Services	2x4 = 8	• Develop the role of a Community Leadership Council to be more intelligent in setting relevant and focused priorities • Deliver the Business Transformation Programme • Deliver New Service Delivery Models **Progress** • Transformation Programme undergoing review • NSDM projects include Care & Support, ICT and Leisure	1x4 = 4
OR 3 Council does not secure the required savings	Malcolm Page, ED of Commercial and Corporate Services	2x4 = 8	• Agree MTFS (in context of Community Leadership Council) • Agree Service Area efficiency targets and monitor progress • Deliver the Business Transformation Programme • Deliver Alternative Service Delivery Models • Deliver the Workforce Planning project	1x4 = 4

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
			Progress • MTFS in place subject to review • Good progress in relation to delivery of BTP • Care and Support ASDM on track for December • Proposals for New Library Service being considered • Workforce Planning efficiency targets for 2013/14 secured	
OR 4 Failure to collect, analyse and use intelligence to enable customer insight to inform decision making	Sue Stanhope, Director of HR & OD Sarah Reed, Assistant Chief Executive	**2x3 = 6**	• Development and delivery of the Intelligence Hub • Strategic planning and service redesign to reflect the needs and preferences of our customers and communities **Progress** • Scoping of Intelligence Hub project on target	**1x3 = 3**
OR 5 Employee engagement falls as a result of ongoing significant changes	Sue Stanhope, Director of HR & OD	**2x3 = 6**	• Continue to monitor and intervene in areas where employee engagement is showing signs of diminishing **Progress** • Surveys being analysed	**1x3 = 3**

Detailed Internal Audit Coverage

Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions		2013/14 Audits / Opinions		Scope of 2013/14 Audit	Overall Opinion
Customer Focus		Children's Services – Safeguarding	L	Early Intervention and Locality Based Services		Review the governance arrangements for multi agency working, information sharing & performance management.	Insufficient work to enable opinion to be given
		Personal Budgets	L	Out of Area Placements		Review implementation of new placements strategy.	
				Web Content Development		Review the arrangements for keeping the new website and intranet up to date, and for on line payments.	
				Crisis Loans / Social Fund		Review the arrangements for implementing the new Local Welfare Provision Scheme, and delivery of the new Crisis Support and Community Care Support, Services.	
Legality		Equality Impact Assessments	M				Substantial
		Licensing (Compliance with Provision of Services Regulations 2009)	N				
		Corporate Legality	F				
Service / Business Planning	Responsive Local Services			Corporate Service/ Business Planning		Review of corporate process	Moderate
	Facilities Management	Children's Services – Safeguarding	L	Derwent Hill	M	Assess the governance arrangements and the robustness of the key financial and non financial systems and procedures in operation at the Centre.	
	Reablement at Home - Adults			Out of Area Placements		Review implementation of new Placements Strategy.	
	Business Support			Building Management		Assess arrangements in place to manage portfolio of operational buildings	

Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions		2013/14 Audits / Opinions		Scope of 2013/14 Audit	Overall Opinion
				Early Intervention and Locality Based Services		Review the governance arrangements for multi agency working, information sharing & performance management.	
Programme and Project Management	Project Management Information Governance (Project Server)			Implementation of the Economic Master Plan	M	Review progress against Business Investment Team projects within the plan	Substantial
		Landscape and Reclamation Service	M				
		Programme and Project Management - support to major projects	M				
		Operating Model – realisation of benefits	S				
Change Management				Payroll		Verification of input of new pay and grading information to SAP HCM.	None (new risk area)
				Health and Wellbeing Partnership Board		A review of governance arrangements and transaction checks on public health activity payments.	
Partnerships				Health and Wellbeing Partnership Board		As above	Moderate
Business Continuity and Emergency Planning	Major Incident Planning			HHAS Business Continuity Planning	L	Examination of the process for determining the level of criticality of each function, and the arrangements for recovery of non critical functions on a service by service basis. (Business recovery for critical functions is currently being reviewed by the Corporate Business Continuity Officer).	Moderate
	Business Continuity Planning - Children's Services						

Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions		2013/14 Audits / Opinions		Scope of 2013/14 Audit	Overall Opinion
Procurement	Purchasing Card Arrangements	Capital Procurement	S	Derwent Hill	M	Assess the governance arrangements and the robustness of the key financial and non financial systems and procedures in operation at the Centre.	Substantial
	Capital Procurement	Unplanned Audit – Revenue Procurement	S	Out of Area Placements		Review implementation of new placements strategy.	
	Revenue Procurement			Building Management		Assess arrangements in place to manage portfolio of operational buildings	
				Revenue Procurement		Transaction Testing	
Relationship and Contract Management		Care and Support Sunderland Ltd – contract management	M	Corporate Contract Management Arrangements		Assess the robustness of the new Corporate Contract Management Framework and the arrangements for its implementation.	Insufficient work to enable opinion to be given
		Housing Related Support	L	Events Company Contract Management		Review the arrangements for ensuring that Sunderland Live fulfils contractual requirements and examine payment arrangements.	
Financial Management	Corporate Budget Setting and Management	YPLA Schools Sixth Form Grant	S	EFA / SFA Funding	S	Grant Certification work	Substantial
	Adoption Allowances	YPLA Young Apprenticeships Cohort 6 Grant	S	DECC Fuel Poverty Grant	M	Grant Certification work	
	Social Care Resource Agency	YPLA Young Apprenticeships Cohort 7 Grant	S	Foster Care Allowances		Review the robustness of the arrangements for payment of allowances.	
	Personal Budgets - Adults	Department for Business Innovation & Skills – LEP Start Up Fund	S	Out of Area Placements		Review implementation of new placements strategy.	
	Port Governance Arrangements	Department for Business Innovation & Skills – LEP Capacity Fund	S	Direct Payments		Assessment of the effectiveness of the arrangements for monitoring use of Direct Payments following implementation of a risk based verification system.	

Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions		2013/14 Audits / Opinions		Scope of 2013/14 Audit	Overall Opinion
	Treasury Management	Deprived Areas Fund Grant	F	Charging for Non Residential Adults Care Services		Review of the arrangements for determining and collecting charges from service users.	
	1 Leisure Centre	Single Investment Programme Grant	F	Personal Budgets		Transaction Testing (to include verification of Direct Payments)	
	Accounts Payable	Local Transport Capital Block Funding Grant	S	Local Transport Capital and Integrated Transport Grants		Grant Certification work	
	Accounts Receivable - Collection	Growing Places Funds 2, 3 and 7	F	Growing Places Funds 2, 3 and 7		Grant Certification work	
	Periodic Income - Recovery and Enforcement	1 Leisure Centre	S	SAP Organisation Structures		Review of staffing structures as recorded on SAP HCM, and assessment of the adequacy of the arrangements for amendments and updates.	
	Cash Receipting - Central System	35 Schools	S	Building Management		Assess arrangements in place to manage portfolio of operational buildings	
	Council Tax - Setting	Home Improvement Agency – Loans and Mortgages	S	Asset Register / Capital Accounting		Review of the arrangements to ensure that all capital assets are recorded in the asset register, valuations are correct, and capital accounting rules have been complied with.	
	Council Tax - Billing	Personal Budgets	L	Capital Programme Funding and Monitoring		Review of the arrangements for developing and financing the Capital Programme, and for monitoring expenditure against plans.	
	Council Tax - Valuation	Direct Payments	L	BACS Processing	M	Assessment of the effectiveness of the arrangements for monitoring use of Direct Payments following implementation of a risk based verification system.	
	Council Tax - Recovery	Care and Support Sunderland Ltd – compliance	S	Treasury Management		Review of borrowing and lending arrangements, and compliance with the Prudential Code.	
	Business Rates – Recovery & Enforcement	Landscape and Reclamation Service	M	Cash Receipting		Transaction Testing, including a review of the arrangements for providing telephone facilities in Customer Service Centres to enable payments to the Council by credit / debit card.	

Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions		2013/14 Audits / Opinions		Scope of 2013/14 Audit	Overall Opinion
	BACS Arrangements	BACS Payments	S	External Funding		A review of the arrangements that are in place to ensure that all possible sources of external funding are utilised and access to available funding is maximised.	
	Charging for Services - HHA	Cash Receipting checks	S	Insurance Claims Handling		Review of the arrangements for dealing with insurance claims against the Council and South Tyneside Council.	
	Future Jobs Fund Grant	Capital Procurement	S	Payroll		Verification of input of new pay grades to SAP HCM, following the Workforce Transformation Project.	
	Deprived Areas Fund Grant	Payroll transactions checks	M	Council Tax Support Scheme		A review of the arrangements for implementing the new Council Tax Support Scheme.	
	Payroll Processing and Payment	Council Tax Transactions checks	S	Council Tax		Transaction Testing	
	Unplanned Audit – SIB and Community Chest Grants	Business Rates transactions checks	S	Local Business Rates Scheme		A review of the arrangements for implementing the new Local Business Rates Scheme.	
	Unplanned Audit – Future Jobs Fund – final audit certificate	Accounts Payable transactions checks	S	Business Rates		Transaction Testing	
	Unplanned Audit – SWITCH Modelling	Accounts Receivable transactions checks	S	Crisis Loans / Social Fund		Review the arrangements for implementing the new Local Welfare Provision Scheme, and delivery of the new Crisis Support and Community Care Support, Services.	
		Housing Related Support	L	Accounts Payable		Transaction Testing	
				Accounts Receivable and Periodic Income		Review of key controls in income collection arrangements, together with transaction testing	
				Troubled Families Performance Reward Grant		Grant certification work	
				Derwent Hill	M	Assess the governance arrangements and the robustness of the key financial and non financial systems and procedures in operation at the Centre.	

Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions		2013/14 Audits / Opinions		Scope of 2013/14 Audit	Overall Opinion
				Aquatic Centre		Examination of the arrangements for budget management, cash collection and purchasing.	
				Events Company Contract Management		Review the arrangements for ensuring that Sunderland Live fulfils contractual requirements and examine payment arrangements.	
Human Resource Management	Corporate Training and Development Arrangements	Corporate Attendance Management Arrangements	L	SAP HCM Organisation Structures		Verification of input of new pay grades to SAP HCM, following the Workforce Transformation Project.	Moderate
	Personnel Administration Arrangement	Management of SWITCH	S	Corporate HR Management		Review of compliance with corporate HR procedures	
	Management of Employees in SWITCH						
Information Governance	Corporate Information Governance (including procedures for remote working)	Vulnerable Adults Protection Arrangements	S	Corporate Information Governance Arrangements	L	A survey of managers is to take place together with a general employee survey to gauge awareness and understanding of, and compliance with information governance policies and procedures.	Moderate
	Email Security	Information Governance compliance checks	L				
	Smarter Working – Remote Working in Children's Services						
	Document Management						
	Corporate Data Protection Arrangements						
	Follow Up – Customer Services Network Info Gov (2010/11)						
Performance Management	Responsive Local Services	Design of corporate performance management arrangements	S	Building Management		Assess arrangements in place to manage portfolio of operational buildings	Moderate

Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions		2013/14 Audits / Opinions		Scope of 2013/14 Audit	Overall Opinion
	Port Governance Arrangements			Early Intervention and Locality Based Services		Review the governance arrangements for multi agency working, information sharing & performance management	
	Customer Services Network						
	Reablement at Home - Adults						
	Social Care Resource Agency						
	Follow up – Sunderland Compact						
Asset Management	Asset Register/Capital Accounting	Asset management	M	Derwent Hill	M	Assess the governance arrangements and the robustness of the key financial and non financial systems and procedures in operation at the Centre.	Moderate
	Unplanned Audit - Technoforge			Technology Forge		Examine progress in implementing the Technology Forge property management software.	
				ICT Asset Management		Review arrangements for identifying, recording and controlling ICT equipment.	
				Asset Register / Capital Accounting		Review of the arrangements to ensure that all capital assets are recorded in the asset register, valuations are correct, and capital accounting rules have been complied with.	
ICT Strategy and Delivery	ICT Remote Access Threats			ICT Asset Management		Review arrangements for identifying, recording and controlling ICT equipment.	Moderate
	Information Technology Infrastructure Library			ICT Strategy		Review of the ICT Strategy to assess whether that it supports delivery of Council Objectives	
Fraud and Corruption	Counter Fraud Testing (including in schools)	Counter Fraud Testing		Counter Fraud Testing			Substantial
	Access to IT systems - with movement of employees	National Fraud Initiative checks		National Fraud Initiative Case Investigations			

Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions		2013/14 Audits / Opinions		Scope of 2013/14 Audit	Overall Opinion
	1 Leisure Centre	Home Improvement Agency	S	Direct Payments		Transaction Testing	
	Asset Management - ICT Equipment	Direct Payments	L	Personal Budgets		Transaction Testing	
	Unplanned Audit – SIB and Community Chest Grants	Cash Receipting Transaction checks	S	BACS Processing		Transaction Testing	
	Social Care Resource Agency	Payroll transaction checks	M	Cash Receipting		Transaction Testing	
		Council Tax transaction checks	S	Payroll		Verification of input of new pay grades to SAP HCM after Workforce Transformation Project.	
		Business Rates transaction checks	S	Council Tax		Transaction Testing	
		Housing Benefit transaction checks	S	Business Rates		Transaction Testing	
		Accounts Payable transaction checks	S	Benefits		Transaction Testing	
		Accounts Receivable transactions	S	Accounts Payable		Transaction Testing	
				Accounts Receivable and Periodic Income		Review of key controls in income collection arrangements, together with transaction testing.	
Risk Management	Port Governance Arrangements						Substantial
	1 Leisure Centre						
	Insurance Policies						
Housing Benefits	Housing Benefit Administration	Housing Benefit transaction checks	S	Benefits		Transaction Testing	Substantial
				Council Tax Support Scheme		A review of the arrangements for implementing the new Council Tax Support Scheme.	

Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions		2013/14 Audits / Opinions		Scope of 2013/14 Audit	Overall Opinion
Schools	38 schools audits completed – 35 good, 3 satisfactory	29 schools audits completed – 7 full, 20 substantial, 1 moderate, I limited	S	34 schools 13 schools completed to date – 4 full, 5 substantial, 1 moderate, I limited	S	Review of governance and financial management arrangements at 34 schools.	Substantial

Appendix 3

Risk and Assurance Activity

Area of activity	Work ongoing
Strategic Risk Profile	Mitigating actions have been agreed. A review of the strategic risks affecting the Council was agreed with EMT. The risk areas have been categorised into People, Place, Economy and Organisational, in line with the Council's Outcomes Framework. The risks and scores have been agreed and mitigating action areas identified. The new Profile and progress in relation to the action areas is included in Appendix 1.
Transformation Programme	Ongoing assurance work is being undertaken in relation to progress in delivering the projects within the Transformation Programme and the related efficiency savings target. A progress report is presented to the Transformation Board on a monthly basis setting out the progress in relation to key project deliverables and the achievement of efficiency savings targets. Work is ongoing with Project Executives, Project Managers and Heads of Service to report the position and address any change control issues required.
Supporting Executive Directors and Heads of Service to manage risks	Activity is ongoing to aid the managing of risks through service planning, programmes and key projects and partnerships. This will be linked to mitigating actions in the Strategic Risk Profile where appropriate.
Support to Schools	A new approach to supporting schools will be introduced in the current year. A number of workshops have been arranged for schools to attend to help them identify and manage their risks more effectively. This will allow Schools to support each other and manage their risks on a more ongoing basis, as well as reducing the resources required from the Risk and Assurance Team.

Area of activity	Work ongoing
Service Reviews (including alternative service delivery models), Programmes and Projects (including ICT)	Major projects / service reviews being supported include: • Local Asset Backed Vehicle • Workforce Transformation Project • Workforce Planning Project • Care and Support Services – Adults • Smarter Working Phase 2 • St Mary's Boulevard/Magistrates Square • Customer Service Network • Intelligence Hub • Training Centres new model • Transport and Fleet Management • ICT – Shared service model • Economic Master Plan • Adult Social Care • Development of the Intranet • Safeguarding – Childrens • Personalisation – Adults • Settlement of Equal pay claims • Streetscene projects • Development of the Voluntary and Charitable Sector
Partnerships	Support is being provided to the following specific partnerships: • Sunderland Economic Leadership Board • Waste Management Partnership • Health and Wellbeing Board • Sunderland Safeguarding Adults Board
Governance Review	The results from Risk and Assurance activity feed into the Annual Governance Review and the Annual Governance Statement
Investigations	Two investigations are currently ongoing

Appendix 4

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2013/14			
Efficiency and Effectiveness			
Objectives	**KPI's**	**Targets**	**Actual Performance**
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the key risk areas identified for the Council 2) Percentage of draft reports issued within 15 days of the end of fieldwork 3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report)	1) All key risk areas covered over a 3 year period 2) 90% 3) 70%	1) On target 2) Behind target - 88% 3) Ahead of target - 86%
Quality			
Objectives	**KPI's**	**Targets**	**Actual Performance**
1) To maintain an effective system of Quality Assurance	1) Opinion of External Auditor	1) Satisfactory opinion	1) Achieved
2) To ensure recommendations made by the service are agreed and implemented	2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented	2) 100% for high and significant 90% for medium risk	2) Significant – N/A Behind target - Medium 88% (excluding schools)
Client Satisfaction			
Objectives	**KPI's**	**Targets**	**Actual Performance**
1) To ensure that clients are satisfied with the service and consider it to be good quality	1) Results of Post Audit Questionnaires 2) Results of other Questionnaires 3) Number of Complaints / Compliments	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor) 2) Results classed as 'Good' 3) No target – actual numbers will be reported	1) On target - 1 to date 2) Non undertaken 3) 4 compliments 0 complaints

Sunderland City Council

Item No. 5

AUDIT AND GOVERNANCE COMMITTEE **27 September 2013**

PUBLIC SECTOR INTERNAL AUDIT STANDARDS

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

1.1 The purpose of this report is to inform the Committee of the requirements and applicability of the Public Sector Internal Audit Standards (PSIAS) which came into force on 1st April 2013.

2. Background

2.1 The PSIAS were developed to create consistent standards for the practice of internal audit across the public sector, and to establish the basis for its quality assurance. They were developed by the Institute of Internal Auditors (IIA) in collaboration with CIPFA and they replace the current standards contained in the CIPFA Code of Practice for Internal Audit.

2.2 The PSIAS have been reviewed to assess the impact on the Council's internal audit arrangements and this report sets out the actions necessary to ensure future compliance with the Standards.

3. Assessment of Impact of PSIAS

3.1 The assessment shows that the Council's existing arrangements already comply with the new Standards. Some minor updating of procedures will be carried out to reflect the new Standards. CIPFA has issued guidance which will be taken into account when updating these procedures.

3.2 In addition, the Council's Audit Charter requires revision to incorporate the definition of internal audit contained in the Standards, as well as some other small changes. A proposed revised Audit Charter is attached at Appendix 1 for consideration and agreement.

4. Recommendations

4.1 The Committee is asked to approve the proposed revised Audit Charter at Appendix 1.

Appendix 1

REVISED INTERNAL AUDIT CHARTER

Statutory Role / Objectives and Responsibilities

Internal Audit is an independent, objective assurance function established by the Council under the requirements of the Accounts and Audit Regulations 2011. The function is designed to add value, improve operations and assist the Council to achieve its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The prime objective of Internal Audit Services is to provide assurance to the Council in relation to its internal control environment and assist management in delivering the objectives of the Council and its associated bodies through assessing exposure to risk and recommending, where appropriate, practical improvements to the control environment. To this end it is the responsibility of IAS to review, appraise and report upon:

- whether operations are being carried out as planned and objectives and goals are being met;
- the adequacy of systems established to ensure compliance with policies, plans, procedures, laws and regulations, i.e. rules established by the management of the organisation, or externally;
- the completeness, reliability and integrity of information, both financial and operational;
- the extent to which the Council's assets, data and interests are properly accounted for and safeguarded from losses of all kinds, including fraud, corruption, waste, extravagance, abuse, ineffective management and poor value for money; and
- the economy, efficiency and effectiveness with which resources are employed.

Internal Audit in meeting the above will have an unrestricted range of coverage of the Council's operations.

The work of Internal Audit contributes to the Council's Integrated Assurance Framework.

Audit Strategy and Operational Planning

Internal Audit will produce an Internal Audit Strategy and annual Operational Internal Audit Plan, agreed by the Executive Director of Commercial and Corporate Services and considered and reviewed by the Audit and Governance Committee. In producing the Strategy and Plan the head of internal audit will assess the resource requirements needed to deliver them and will have the freedom to determine the priorities for internal audit in consultation with the Executive Director of Commercial and Corporate Services and Chief Officers. In general, but not exclusively, a process of risk assessment will determine the priorities for internal audit.

Professional Standards

Internal audit is required to provide an objective audit service in line with professional auditing standards. The head of internal audit will report directly to the Executive Director of Commercial and Corporate Services and have direct access to, and freedom to report to, all senior management including the Chief Executive, Audit and Governance Committee and Members.

Internal Audit will perform the audit work to the professional standards set out in the Public Sector Internal Audit Standards, including the Code of Ethics.. Furthermore, Internal Audit shall have no responsibilities over the operations that it audits beyond the furnishing of recommendations and advice to management on risks and controls.

Reports

All material findings will be communicated to the relevant departmental management and once agreed a final report will be sent to the Chief Officer and, where appropriate, the Executive Director of Commercial and Corporate Services. Management is expected to implement all agreed audit recommendations within a reasonable timeframe and each audit will be followed up to assess the extent to which this has happened. In addition, the overall results of audit work will be reported regularly to the Executive Director of Commercial and Corporate Services and quarterly to the Audit and Governance Committee. The quarterly reports will contain an opinion on the soundness of the Council’s system of internal controls based on the work carried out by Internal Audit. The quarterly reports will also provide the Audit and Governance Committee with an updated Corporate Assurance Map which will summarise assurances gathered from a number of sources under the Integrated Assurance Framework.

Access

Internal Audit shall have access to all officers, buildings, information, explanations and documentation required to discharge the audit role.

This includes not only the City Council, but also:

- organisations to whom the Council has given grants;

- organisations to which the Council awards service contracts; and
- partner organisations in any schemes for which the Council has responsibility as Lead or Accountable Body.

Such rights of access shall be written into the appropriate agreements with these organisations.

Fraud, Corruption and Financial Irregularity

Managing the risk of fraud, corruption and financial irregularity is the responsibility of management. However, Internal Audit will be alert in all of its work to risks and exposures that could allow these risks to occur and will undertake specific work, from time to time, in this regard. Audit procedures alone cannot guarantee that all such incidences will be detected.

The head of internal audit is to be notified by managers of all suspected or detected fraud, corruption or financial impropriety. Internal Audit will seek to respond to requests for such investigations and make appropriate recommendations to minimise any risks.

Sunderland City Council

Item No. 6

AUDIT AND GOVERNANCE COMMITTEE **27 September 2013**

TREASURY MANAGEMENT – SECOND QUARTERLY REVIEW 2013/2014

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

1.1 To report on the Treasury Management (TM) performance for the second quarter of 2013/2014.

2. Description of Decision

2.1 The Committee is requested to note the Treasury Management performance during Quarter 2 of 2013/2014.

2.2 To note amendments to the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C.

3. Introduction

3.1 This report sets out the Treasury Management performance to date for the second quarter of the financial year 2013/2014, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Council on 6th March 2013.

4. Review of Treasury Management Performance for 2013/14 – Quarter 2

4.1 The Council's Treasury Management function continues to look at ways of maximising financial savings and increase investment return to the revenue budget. One option to make savings is through debt rescheduling, however no rescheduling has been possible in 2013/2014 as rates have not been considered sufficiently favourable. It should be noted the Council's interest rate on borrowing is very low, currently 3.51%, and as such the Council continues to benefit from this low cost of borrowing and from the ongoing savings from past debt rescheduling exercises.

4.2 Treasury Management Prudential Indicators are regularly reviewed and the Council is within the limits set for all of its TM Prudential Indicators. The statutory limit under section 3(1) of the Local Government Act 2003, which is required to be reported separately, (also known as the Authorised Borrowing Limit for External Debt) was set at £398.602m for 2013/2014 and the Council is well within this limit. More details of all of the TM Prudential Indicators are set out in section A2 of Appendix A for information.

4.3 The investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions which will benefit the Council.

4.4 As at 31st August 2013, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 1.01% compared with the benchmark 7 Day LIBID (London Interbank Bid) rate of 0.36%. Performance is very positive and is significantly above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council.

4.5 The rate of return on investments has fallen markedly in recent months as UK-based financial institutions access funding from alternative sources such as the Government's Funding for Lending Scheme to increase their capital/cash reserves in line with recent regulatory requirements. The result is that investment rates have reduced considerably since April 2013 and continue to follow a downward trend. Even special tranche investment rates (which offer better than market average returns) have reflected this downward trend. Forward guidance announced in the Quarterly Inflation report (August 2013) by the Bank of England also shows that they do not expect to increase the Bank Base Rate until late 2016 at the earliest and the implication from this is that returns on investments will be significantly lower than those achieved in recent years until interest rates begin to increase.

4.6 More detailed Treasury Management information is included in Appendix A for Members' information.

4.7 The regular updating of the Council's authorised lending list takes into account all recent financial institution mergers and changes in institutions' credit ratings. The Approved Lending List as shown in Appendix C has been updated to reflect this.

4.8 In accordance with Treasury Management Best Practice, a risk analysis of the Treasury Management functions has been carried out and included at Appendix D for information which sets out how the Council manages the risks associated with the Treasury Management function.

5. Recommendation

5.1 Members are requested to note the Treasury Management (TM) performance for the second quarter of 2013/2014.

5.2 Members are requested to note amendments to the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D.

Appendix A

Detailed Treasury Management Performance – Quarter 2 2013/14

A1 Borrowing Strategy and Performance – 2013/14

A1.1 The Borrowing Strategy for 2013/2014 was reported to Cabinet on 13th February 2013 and approved by full Council on 6th March 2013.

The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view in February 2013, when the Treasury Management Policy and Strategy was drafted, was that the Bank Base Rate would remain at 0.50% until December 2014 before steadily rising to 1.75% by March 2016 and that PWLB borrowing rates would increase during 2013/2014 across all periods.

However the Bank of England announced forward guidance on their future plans in their Quarterly Inflation report (August 2013). The main item of guidance is that any increase in the current 0.5% Base Rate, in place since March 2009, would only be considered once the jobless rate has fallen to 7% or below and an increase is therefore unlikely before the end of December 2016. Compared to the current unemployment rate of 7.8%, this would require the creation of around 750,000 jobs and it is estimated that this could take up to three years to achieve. This policy will be reconsidered if Consumer Price Index (CPI) inflation is judged likely to be at or above 2.5% over an 18 month to two year horizon. If inflation looks like it could get out of control in the medium term, or if the Bank's Financial Policy Committee judges that this stance poses a significant threat to financial stability then it would consider reviewing the Base Rate in these circumstances.

It is predicted that inflation will continue to fall. CPI inflation reduced from 2.9% in June to 2.8% in July and the Bank of England forecast that they will meet their 2% inflation target within two years. Recent data has provided encouraging signs for the economy with growth forecasts increasing for 2013 (from 1.2% to 1.4%) and for 2014 (from 1.7% to 2.5%). However, this cautious optimism comes after what has been the weakest recovery on record after a recession and the economy is still a long way off a strong and sustained revival. Problems persist within the Eurozone, the UK's largest trading partner, where political unease over the scale and pace of austerity measures have resurfaced and could pose a risk to an export led recovery. In particular the high level of unemployment in some EU counties such as Spain, which has unemployment levels of 27%, which may pose a threat to a democratically elected government that tries to implement further austerity measures demanded by other EU countries. In addition the price of oil is vulnerable to geopolitical events which is especially the case with the present unrest in parts of the Middle East.

During 2013/2014 there has been a sharp rise in UK gilt yields which has led to an increase in PWLB rates as investors have switched from bonds into equities, with share markets now standing at or near new highs. Potential upside risks for further increases remain, especially for longer term PWLB rates, as follows:

- UK inflation remains significantly higher than in the wider EU and US.
- A reversal of Quantitative Easing, either by allowing gilts to mature without being replaced or sale of gilts currently held.
- A reversal in Sterling's safe haven status following financial improvements in the Eurozone.
- Further increase in investor confidence causing continued flow of funds out of bonds and into equities.
- A further UK credit rating downgrade.

However, bond yields do remain extremely unpredictable and there are still exceptional levels of volatility which are highly correlated to the sovereign debt crisis and to political developments in the Eurozone and US. This uncertainty is expected to continue into the medium term.

As a consequence of the Bank of England forward guidance, improvements to UK and World economies and expectations of further recovery to come, many forecasters, including the Council's treasury advisor Sector Treasury Services have reviewed their economic forecasts. The latest forecasts have moved the date the Bank Base Rate is expected to rise from Q1 2015 to Q4 2016 and also now show increases to forecast PWLB borrowing rates. The following table shows the average PWLB rates for Quarters 1 and 2.

2013/2014	**Qtr 1* (Apr - June) %**	**Qtr 2* (July - Aug) %**
7 days notice	0.31	0.31
1 year	1.02*	1.04*
5 year	1.75*	2.17*
10 year	2.81*	3.38*
25 year	3.95*	4.29*
50 year	4.09*	4.35*

*rates take account of the 0.2% discount to PWLB rates available to eligible authorities that came into effect on 1st November 2012.

A1.2 The strategy for 2013/2014 is to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow, and to respond to any changing circumstances to seek to secure benefit for the Council. A benchmark financing rate of 4.50% for long-term borrowing was set for 2013/2014. Due to high levels of volatility in the financial markets, no new borrowing has been undertaken in the current financial year up to 31st August 2013, but this position will be kept under review.

A1.3 The Borrowing Strategy for 2013/2014 made provision for debt rescheduling but also stated that because of the proactive approach taken by the Council in recent years, and because of the very low underlying rate of the Council's long-term debt, it would be difficult to refinance long-term loans at interest rates lower than those already in place.

Interest rates have not been sufficiently favourable for rescheduling in 2013/2014 and are not expected to rise to a level that would make rescheduling a viable option until the medium term. The Treasury Management team will continue to monitor market conditions and secure early redemption if appropriate opportunities arise. Any rescheduling undertaken will be reported to Cabinet in line with the current Treasury Management reporting procedures.

The Council successfully applied to access PWLB loans at a discount of 0.20%. This certainty rate is available for those authorities that provide "improved information and transparency on their locally determined long-term borrowing and associated capital spending plans". The discount came into effect on 1st November 2012 and eligibility lasts until 31st October 2013. The Council has reapplied to access the PWLB certainty rate for the following 12 months to 31st October 2014.

A1.4 The Council's treasury portfolio position at 31st August 2013 is set out below:

		Principal (£m)	Total (£m)	Average Rate (%)
Borrowing				
Fixed Rate Funding	PWLB	137.9		
	Market	39.5		
	Other	1.7	179.1	3.95
Variable Rate Funding	Temporary / Other	28.4	28.4	0.79
Total Borrowing			**207.5**	**3.51**

A2 Treasury Management Prudential Indicators – 2013/2014

A2.1 All external borrowing and investments undertaken in 2013/2014 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Council's performance for all of the other TM Prudential Indicators.

A2.2 The statutory limit under section 3(1) of the Local Government Act 2003 (which is also known as the Authorised Borrowing Limit for External Debt) was set by the Council for 2013/2014 as follows:

	£m
Borrowing	366.139
Other Long-Term Liabilities	32.463
Total	**398.602**

The Operational Boundary for External Debt was set as shown below:-

	£m
Borrowing	322.863
Other Long-Term Liabilities	32.463
Total	**355.326**

The maximum external debt in respect of borrowing in 2013/14 (to 31st August 2013) was £213.106 million (which includes borrowing in respect of other organisations such as Tyne and Wear Fire and Rescue Authority but excludes other long-term liabilities such as PFI and Finance leases which already include borrowing instruments) and is well within the borrowing limits set by both of these indicators.

A2.3 The table below shows that all other Treasury Management Prudential Indicators have been complied with:

Prudential Indicators		**2013/2014 (to 31/08/13)**	
		Limit £'000	**Actual £'000**
P10	**Upper limit for fixed interest rate exposure**		
	Net principal re fixed rate borrowing / investments	235,000	74,086
P11	**Upper limit for variable rate exposure**		
	Net principal re variable rate borrowing / investments	50,000	-36,006
P12	**Maturity Pattern**	Upper Limit	
	Under 12 months	50%	15.99%
	12 months and within 24 months	60%	4.86%
	24 months and within 5 years	80%	2.66%
	5 years plus	100%	78.74%
	A lower limit of 0% for all periods		
P13	**Upper limit for total principal sums invested for over 364 days**	75,000	0

A3 Investment Strategy – 2013/2014

A3.1 The Investment Strategy for 2013/2014 was approved by Council on 6th March 2013. The general policy objective for the Council is the prudent investment of its treasury balances. The Council's investment priorities in order of importance are:

(A) The **security** of capital
(B) The **liquidity** of its investments and then;
(C) The Council aims to achieve the **optimum yield** on its investments but this is commensurate with the proper levels of security and liquidity

A3.2 As at 31st August 2013, the funds managed by the Council's in-house team amounted to £226.645 million and all investments complied with the Annual Investment Strategy. This includes monies invested on behalf of the North Eastern Local Enterprise Partnership for whom Sunderland City Council is the accountable body. The table below shows the return received on these investments compared with the benchmark 7 Day LIBID (London Interbank Bid) rate, which the Council uses to assess its performance.

	2013/2014 Actual to 31/08/13 %	**2013/2014 Benchmark to 31/08/13 %**
Return on investments	1.01	0.36

A3.3 Investments placed in 2013/2014 have been made in accordance with the approved investment strategy and comply with the Counterparty Criteria in place, shown in Appendix B, that is used to identify organisations on the Approved Lending List.

A3.4 The investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions to the Council's advantage.

A3.5 Investment rates available in the market have continued at historically low levels and are forecast to remain at low levels until 2016/2017 at the earliest.

A3.6 Due to the continuing high volatility within the financial markets, particularly in the Eurozone, advice from our Treasury Management advisers is to continue to restrict investments with all financial institutions for shorter term periods.

A3.7 Advice also continues that the above guidance is not applicable to institutions considered to be very low risk because the government holds shares in these organisations (i.e. Lloyds TSB and RBS) which have an AA+ rating applied to them or in respect of Money Market Funds which are AAA rated.

A3.8 The regular updating of the Council's authorised lending list is required to take into account financial institution mergers and changes in institutions' credit ratings. Members should also note the inclusion of Deutsche Managed Sterling Fund in the list of approved Money Market Funds. It is recommended that this money market fund is added to the Council's approved lending list to increase available investment options. Deutsche Bank is one of the worlds leading investment organisations and the Deutsche Managed Sterling Fund operated by Deutsche Asset Management (UK) Limited holds the highest available AAA credit rating. The Approved Lending List is shown in Appendix C and has been updated with notified changes to credit ratings.

Counterparty Criteria

The Council takes into account not only the individual institution's credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's), but also all available market data and intelligence, the level of government support and advice from its Treasury Management advisers.

Set out below are the criteria to be used in determining the level of funds that can be invested with each institution. Where an institution is rated differently by the rating agencies, the lowest rating will determine the level of investment.

Fitch / S&P's Long Term Rating	Fitch Short Term Rating	S&P's Short Term Rating	Moody's Long Term Rating	Moody's Short Term Rating	Maximum Deposit £m	Maximum Duration
AAA	F1+	A1+	Aaa	P-1	110	2 Years
AA+	F1+	A1+	Aa1	P-1	90	2 Years
AA	F1+	A1+	Aa2	P-1	40	364 days
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	20	364 days
A+	F1	A-1	A1	P-1	10	364 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	10	364 days
A-	F1 / F2	A-2	A3	P-1 / P-2	5	6 months
Local Authorities (limit for each local authority)					30	2 years
UK Government (including debt management office, gilts and treasury bills)					90	2 years
Money Market Funds Maximum amount to be invested in Money Market Funds is £80m with a maximum of £40m in any one fund.					80	Liquid Deposits
Local Authority controlled companies (# duration limited to 20 years in accordance with Capital Regulations)					20	# 20 years

Where the UK Government holds a shareholding in an institution the UK Government's credit rating of AA+ will be applied to that institution to determine the amount the Council can place with that institution for a maximum period of 2 years.

Where any banks / building societies are part of the UK Government's Credit Guarantee scheme (marked with * in the Approved Lending List), these counterparties will have an AA rating applied to them thus giving them a credit limit of £40 million for a maximum period of 364 days

The Code of Practice for Treasury Management in the Public Services recommends that consideration should also be given to country, sector, and group limits in addition to the individual limits set out above, these new limits are as follows:

Country Limit
It is proposed that only countries with a minimum sovereign credit rating of AA+ by all three rating agencies will be considered for inclusion on the Approved Lending List.

It is also proposed to set a total limit of £40 million which can be invested in other countries provided they meet the above criteria. A separate limit of £350m will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

Country	Limit £m
UK	350
Non UK	40

Sector Limit
The Code recommends a limit be set for each sector in which the Council can place investments. These limits are set out below:

Sector	Limit £m
Central Government	350
Local Government	350
UK Banks	350
UK Building Societies	150
Money Market Funds	80
Foreign Banks	40

Group Limit
Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, then total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

- the government's guarantee scheme is still in place;
- the UK continues to have a sovereign credit rating of AA+; and
- that market intelligence and professional advice is taken into account.

Proposed group limits are set out in Appendix C.

Approved Lending List **Appendix C**

	Fitch				Moody's			Standard & Poor's			
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength Rating	L Term	S Term	Limit £m	Max Deposit Period
UK	AA+				Aa1			AAA		350	2 years
Lloyds Banking Group (see Note 1)										**Group Limit 90**	
Lloyds Banking Group plc	A	F1	bbb	1	A3	-	-	A-	A-2	90	2 years
Lloyds TSB Bank Plc	A	F1	bbb	1	A2	P-1	C-	A	A-1	90	2 years
Bank of Scotland Plc	A	F1	-	1	A2	P-1	D+	A	A-1	90	2 years
Royal Bank of Scotland Group (See Note 1)										**Group Limit 90**	
Royal Bank of Scotland Group plc	A	F1	bbb	1	Baa1	P-2	-	A-	A-2	90	2 years
The Royal Bank of Scotland Plc	A	F1	bbb	1	A3	P-2	D+	A	A-1	90	2 years
National Westminster Bank Plc	A	F1	-	1	A3	P-2	D+	A	A-1	90	2 years
Ulster Bank Ltd	A-	F1	ccc	1	Baa2	P-2	D-	BBB+	A-2	90	2 years
Santander Group *										**Group Limit 40**	
Santander UK plc	A	F1	a	1	A2	P-1	C-	A	A-1	40	364 days
Cater Allen	-	-	-	-	-	-	-	-	-	40	364 days
Barclays Bank plc *	A	F1	a	1	A2	P-1	C-	A	A-1	40	364 days
HSBC Bank plc *	AA-	F1+	a+	1	Aa3	P-1	C	AA-	A-1+	40	364 days

Appendix C

	Fitch				Moody's			Standard & Poor's			
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength Rating	L Term	S Term	Limit £m	Max Deposit Period
Nationwide BS *	A+	F1	a+	1	A2	P-1	C	**A**	A-1	40	364 days
Standard Chartered Bank *	AA-	F1+	aa-	1	A1	P-1	B-	AA-	A-1+	40	364 days
Clydesdale Bank / Yorkshire Bank **/***	A	F1	bbb+	1	**Baa2**	**P-2**	**D+**	BBB+	A-2	0	
Co-Operative Bank Plc	BB-	B	bb-	5	Caa1	NP	E	-	-	0	
Virgin Money ***	BBB	F3	bbb	5	-	-	-	BBB+	A-2	0	
Top Building Societies (by asset value)											
Nationwide BS (see above)											
Yorkshire BS ***	BBB+	F2	bbb+	5	Baa2	P-2	C-	-	-	0	
Coventry BS	A	F1	a	5	A3	P-2	C	-	-	5	6 Months
Skipton BS ***	BBB-	F3	bbb-	5	Ba1	NP	D+	-	-	0	
Leeds BS	A-	F2	a-	5	A3	P-2	C	-	-	5	6 Months
West Bromwich BS ***	-	-	-	-	B2	NP	E+	-	-	0	
Principality BS ***	BBB+	F2	bbb+	5	Ba1	NP	D+	-	-	0	
Newcastle BS ***	BB+	B	bb+	5	-	-	-	-	-	0	
Nottingham BS ***	-	-	-	-	Baa2	P-2	C-	-	-	0	
Foreign Banks have a combined total limit of £40m											
Australia	AAA	-	-	-	Aaa	-	-	AAA		40	364 Days
National Australia Bank	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	20	364 Days
Australia and New Zealand Banking Group Ltd	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	20	364 Days
Commonwealth Bank of Australia	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	20	364 Days
Westpac Banking Corporation	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	20	364 Days

Appendix C

	Fitch				Moody's			Standard & Poor's			
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength Rating	L Term	S Term	Limit £m	Max Deposit Period
Canada	AAA				Aaa			AAA		40	364 Days
Bank of Nova Scotia	AA-	F1+	aa-	1	Aa2	P-1	B-	A+	A-1	10	364 Days
Royal Bank of Canada	AA	F1+	aa	1	Aa3	P-1	C+	AA-	A-1+	20	364 Days
Toronto Dominion Bank	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+	20	364 Days
Money Market Funds										80	Liquid
Prime Rate Stirling Liquidity	AAA	-	-	-	-	-	-	AAA	-	40	Liquid
Insight Liquidity Fund	AAA	-	-	-	-	-	-	AAA	-	40	Liquid
Ignis Sterling Liquidity	AAA	-	-	-	-	-	-	AAA	-	40	Liquid
Deutsche Managed Sterling Fund	-	-	-	-	**AAA**	**-**	**-**	**AAA**	**-**	**40**	**Liquid**

Notes

Note 1 **Nationalised / Part Nationalised**
The counterparties in this section will have the UK Government's AA+ rating applied to them thus giving them a credit limit of £90m.

* Banks / Building Societies which are part of the UK Government's Credit Guarantee scheme
The counterparties in this section will have an AA rating applied to them thus giving them a credit limit of £40 million

** The Clydesdale Bank (under the UK section) is owned by National Australia Bank

*** These will be revisited and used only if they meet the minimum criteria (ratings of A- and above)

Any bank which is incorporated in the United Kingdom and controlled by the FSA is classed as a UK bank for the purposes of the Approved Lending List.

Appendix D

Risk Management Review of Treasury Management

Set out below are the risks the Council face as a result of carrying out their Treasury Management functions and the controls that are in place to mitigate those risks:

	Risk	Controls
1.	**Strategic Risk** The Council's strategic objectives could be put at risk if borrowing costs escalated, or investment income was reduced, or there was a combination of the two. This could result in a negative impact on the Council's budget and could ultimately lead to a reduction in resources for front line services.	This risk is mitigated by the adoption of a Treasury Management Strategy approved by the Council in March each year for the next financial year, in accordance with the CIPFA Code of Practice on Treasury Management. The Treasury Management Strategy sets out a borrowing strategy and investment strategy for the year ahead. The strategy is based on the Executive Director of Commercial & Corporate Services view on the outlook for interest rates, supplemented by the views of leading market forecasters provided by the Council's treasury advisor (currently Sector). The strategy also sets the Authorised Borrowing Limit (setting the maximum amount that the Council may borrow) and various prudential indicators to ensure the Treasury Management function is monitored and properly managed and controlled.
2.	**Interest Rate Risk** The risk of fluctuations in interest rates affects both borrowing costs and investment income and could adversely impact on the Council's finances and budget for the year.	The Council manages its exposure to fluctuations in interest rates with a view to minimising its borrowing costs and securing the best rate of return on its investments, having regard to the security of capital, in accordance with its approved Treasury Management Strategy. The risk is mitigated due to the prudent view taken on interest rates adopted in the budget after taking into account the Executive Director of Commercial & Corporate Services own view of the financial markets, specialist expert advice, other information from the internet, other domestic and international economic data, published guidance and Government fiscal policy . A pro-active approach is taken by the Council's Treasury Management team, which closely monitors interest rates on a daily basis and takes necessary actions to help mitigate the impact of interest rate changes over the short, medium and longer term as

	Risk	Controls
		appropriate.
3.	**Exchange Rate Risk** As a result of the nature of the Council's business, the Council may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling.	All borrowings and investments are made in sterling and are therefore not subject to exchange rate risk. This risk is minimal as all other foreign exchange transactions are automatically converted into GBP sterling by the Council's bankers on the day of the transaction.
4.	**Inflation Risk** There is a risk that the rate of inflation will impact on interest rates as a direct result of the intervention of the Bank of England to control inflation through the use of interest rates, where inflation rates have exceeded or are projected to exceed the target rates agreed between the Bank of England and Government.	Economic data such as pay, commodities, housing and other prices are monitored by the Council's treasury advisors. These are considered as part of an overall view on the influences on inflation rates, which in turn inform the Council's view on interest rate forecasts when drafting annual budgets and reviewing treasury management performance. Regular meetings are held with treasury advisors to provide updates on economic data to monitor any changes in inflation rates that may influence interest rates so that the Treasury Management Strategy can be revised and updated as necessary and any remedial action taken.
5.	**Counterparty Risk** The Economic Downturn and problems encountered by some authorities with Icelandic Banks has demonstrated that there is a risk of losing funds/investments deposited with counterparties when carrying out its investment strategy activities.	The prime objective of the Council's treasury management activity in this area is the security of the capital sums it invests. Accordingly, counterparty lists and limits reflect a prudent view of the financial strength of the institutions where funds are deposited. The Council also only uses instruments set out in its investment policy and places limits upon the level of investment with the Counterparties approved within the Council's Treasury Management Policy and Strategy Statement. The Executive Director of Commercial & Corporate Services has delegated authority to amend both the Lending Criteria and the Approved Lending List in response to changes in the financial markets should the need arise and these changes are reported to Cabinet at the next available opportunity.

	Risk	Controls
		The Treasury Management team continually monitor information regarding counterparties using credit ratings, news articles, the internet Credit Default Swap prices, professional advice and other appropriate sources to formulate its own view to keep the approved lending list up to date and fully informed, using the latest available information.
6.	**Capital Financing and Refinancing Risk** There is a risk that opportunities for rescheduling of the Council's debt portfolio are constrained.	The risk is currently mitigated as the Council has access to the funds of the Public Works Loan Board (PWLB) and has the flexibility to temporarily use internal funds as required. PWLB funding could come under pressure in future years because of Government targets to reduce the level of public debt which could see a return to the operation of the PWLB quota system as operated in previous years where Government funding was restricted. However, the Government has not indicated that this is an option that they are currently considering.
7.	**Statutory and Regulatory Risk** There is a risk that regulations covering Treasury Management will change and the Council fails to respond to those changes.	The Council ensures full compliance with the current legislative requirements under the Local Government Act 2003 and the Prudential Code, which also requires full compliance with the latest CIPFA Treasury Management Code of Practice. All Treasury Management Prudential Indicators are monitored daily and all Treasury Management practices fully comply with the Code of Practice and this is reported to and agreed by Council.
8.	**Treasury Management Arrangements Risk** There is a risk that the Council does not carry out its Treasury Management function effectively and thereby the Council could suffer financial loss as a result.	This is unlikely to happen because the Treasury Management function is required to ensure the Council can comply with all legislative and regulatory requirements. As such the Council has a well established Treasury Management team that operates under the Executive Director of Commercial & Corporate Services and is staffed appropriately with a good mix of both well experienced and qualified staff.

Risk	Controls
	Professional advice is regularly accessed to ensure the team is up to date and that they can inform senior management and Members of all developments and provide the necessary expert advice and guidance in this specialist area of finance.

Sunderland City Council

Item No. 7

AUDIT AND GOVERNANCE COMMITTEE **27 September 2013**

AUDITED STATEMENT OF ACCOUNTS 2012/2013

Report of the Executive Director of Commercial and Corporate Services

1.0 PURPOSE OF REPORT

1.1 To present the Letter of Representation for 2012/2013, to receive the Audit Completion Report received from Mazars LLP concerning the financial statements for 2012/2013 and which also provides their opinion on both the Authority's Statement of Accounts and its arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money).

1.2 To provide an audited Statement of Accounts for 2012/2013. This has been revised to take into account the auditor's findings, for approval by members of the Committee.

2.0 DESCRIPTION OF DECISION

2.1 Members are recommended to:

2.1.1 Note the contents of the Letter of Representation - Item 7 (i)

2.1.2 Note the contents of the Audit Completion Report - Item 7 (ii) provided by the Mazars LLP.

2.1.3 Approve the Amended Audited Statement of Accounts for the financial year ended 31st March 2013 - Item 7 (iii).

3.0 BACKGROUND

3.1 Members will be aware that Mazars LLP, who were appointed as the Authority's external auditors from 1st November 2012 replacing the Audit Commission's in-house Audit Practice, are required to report on the final accounts, and report other certain matters to Members prior to an opinion being provided on the Authority's accounts.

3.2 A Letter of Representation has to be prepared by the Executive Director of Commercial and Corporate Services which sets out the principles used in preparing the accounts and provides the external auditor with the necessary assurances required by regulation (this is shown as **Item 7 i** on the agenda).

3.3 Mazars LLP has audited the financial statements of the Authority in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (ISA) issued by the Auditing Practices Board.

3.4 Once the Audit and Governance Committee has noted the contents of this communication, Mazars LLP can then formally provide an opinion on the Statement of Accounts for the year ended 31st March 2013.

3.5 In line with Auditing standards, Mazars LLP produces an Audit Completion Report, in which the auditor's opinion is that the financial statements present a true and fair view of the financial position of the Authority as at 31st March 2013 and its income and expenditure for the year then ended. The Audit Completion Report 2012/2013 is included as **Item 7 ii** on the Agenda.

3.6 The Statement of Accounts 2012/2013 has been amended to reflect a few minor adjustments following the audit. The revised Statement of Accounts 2012/2013 is set out at **Item 7 iii** on the agenda for approval. At the request of the Committee previously, a summary guide to the financial statements is attached at Appendix A to this report, which sets out the key messages from the financial statements in a more easy to understand format.

3.7 This communication is in addition to the Annual Audit Letter, which will continue to be presented to Cabinet, the Audit and Governance Committee and Council annually.

4.0 KEY MESSAGES

4.1 The full communication is included in the Audit Completion Report. The report is very positive and in summary shows that:

- the external auditors propose to issue an unqualified audit opinion;
- most non-trifling misstatements have been adjusted by management and those not adjusted are set out with reasons accepted by the auditor in his Annual Audit Report;
- the external auditors have not identified any material weaknesses in the accounting and internal control systems;
- the external auditors have referred to a number of presentational issues they identified in relation to the qualitative aspects of the Council's financial reporting and reference is also made in the Letter of Representation but these are not considered to be significant;
- the external auditors have not identified any matters required by international auditing standards that should be communicated to Members;
- the external auditors have not identified any other relevant matters relating to the audit that need to be brought to Members attention;

- the external auditors have reported that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and propose to issue an unqualified value for money conclusion in respect of 2012/2013.

4.2 On the basis of the amendments agreed with the external auditors, Mazars LLP will formally provide an opinion on the amended Statement of Accounts, on or before the 30th September statutory deadline, by which time the Council is required to publish its Audited Statement of Accounts for 2012/2013.

Audit and Governance Meeting **27 September 2013**

Item 7 - Statement of Accounts 2012/2013 – Appendix A

International Financial Reporting Standards (IFRS) – Summary

Introduction

- Implemented from1st April 2010 (as instructed by the government) and represented a significant change in the way local authorities
- present their Statement of Accounts
- This year is the third set of accounts that are IFRS compliant (2012/2013, 2011/2012 and 2010/2011)
- The changes to IFRS have generally made the accounts more technical and complex and as a result generally more difficult to understand.

Presentational Changes

Previous Format of Accounts	IFRS Format	Pages
Income & Expenditure Account (I&E) Statement of Recognised Gains and Losses (STRGL)	Now both included in the Comprehensive Income and Expenditure Statement	28 / 29
Statement of Movement in General Fund Balance (SMiGFB)	Movement in Reserves Statement (MiRS) - (General Fund movement and all other reserves)	26 / 27
Balance Sheet (detailed)	Balance Sheet (simplified)	30
Cash Flow Statement (detailed)	Cash Flow Statement (simplified)	31
Notes to the Accounts (not prescribed and in any order)	Notes to the Accounts prescribed order and now includes the main Accounting Policies (much more complex)	32/113
Collection Fund Account and notes	Collection Fund Account and notes	114
Glossary	Glossary (no change)	118

Summary of main changes (but the accounts are now much more complex and technical in content)

1. Accrual for Employee Benefits included
2. Property Leases – Land / Buildings now separately valued in the accounts
3. Definition of leases has changed – more operating leases becoming finance leases (on Balance Sheet when previously treated as revenue 'rental hire' expenditure).

4. Government grants recognised as income when they become receivable. The Government Grants Deferred A/c on the Balance Sheet is not now required and accounting treatment has changed.
5. Investment property more stringent criteria applied – must be solely held for capital appreciation / rental income purposes
6. Assets held for sale - must be being actively marketed or sale is imminent – Council does not have any of these currently.
7. Componentisation of assets required to recognise different asset lives in the accounts – covered in more detail below
8. Segmental reporting – new requirement, accounts more aligned to the financial reporting structure of the Authority
9. Some major changes included that were already made in previous accounting years (e.g. Financial Instruments and PFI) which helped phase in the more complex IFRS requirements earlier.

Pensions Accounting

FRS17 now IAS19 – only minor changes to reporting requirements, however, – major change is the change in valuing benefits using CPI rather than RPI – (a lower cost option) which had a significant impact on the accounts in 2010/2011. Small variations in factors used by the Actuary have large implications of the figures included in the accounts. Pension deficit stands at almost £641m at 31.3.13 (compared to almost £589m at 31.3.12). The main reason for the variation is the value placed by the Actuary on net Actuarial Losses which accounts for almost £49m of the change in the Pensions Reserve value. More details are set out in notes 24d and 44 of the accounts.

Component Accounting

Analysis and accounting for assets into their component parts e.g. infrastructure heating system, roof etc. but only where material – but which recognises that different elements of an asset will be used within varying time periods.

Also prospective in nature - applies only to new assets acquired from 1.4.11 and those re-valued each year – but this reflects a more accurate use of assets in the accounts as different components are depreciated having different asset lives – so is helpful in the management and use of assets and in making investment decisions in the future.

Finance Officer Foreword
An essential summary to the accounts, which includes all of the key messages for information, to the reader of the accounts, from the Executive Director of Commercial and Corporate Services in his capacity as Section 151 Officer to the council (the Council's Finance Officer). **(Pages 6 to 17)**

Key messages

- 2012/2013 budget included £28m worth of savings to meet the reduced level of government funding which have been mainly achieved through the Council's Improvement Agenda which has achieved significant reductions to budgets (mainly back office functions) whilst still meeting needs and protecting front line services as far as possible.
- Council Tax was also frozen for 2012/13 so Sunderland still has the lowest in Tyne and Wear and in all of the North East Region
- The Council has a number of outstanding equal pay claims from staff who are seeking financial redress in respect of periods where unequal pay is alleged to have been applied by the Council. The majority of claims have been stayed by the Employment Tribunal to allow settlement discussions to take place. A significant number of the claims have been settled, with efforts ongoing to settle the remainder of the stayed cases.
- The airport undertook a refinancing of their existing debt portfolio in November 2012 in advance of the current agreements reaching their term in December 2013 in order to achieve a more cost effective outcome. The overall level of debt secured from commercial banks to refinance the airport however was lower than previously obtained, as a consequence of the prevailing difficult economic and financial climate. This position represented an opportunity for the local authority shareholders to inject additional shareholder funds into the Airport to support the refinancing on a more commercial funding basis. As such the council approved the use of internal resources in the year which has been reflected in the accounts and it is envisaged that income receivable over the course of the 20 year financing period will more than cover the Council for the funds of almost £14.6m utilised in this transaction, (on a worst case scenario basis), and that the transaction is expected to be at least revenue neutral over the term of the loan notes provided.

  The value of the council's shareholding has increased form £0.795m to £16.400m based upon the open market share valuation which was derived from information resulting form the fact that on 16th November 2012, Copenhagen Airports A/S sold its 49% shareholding to AMP Capital Investors.
- The Council continues to be well managed and has a healthy Balance Sheet in comparison to most other councils
- Outlook for government funding remains very challenging with further known funding reductions in 2013/14 of £37m and more reductions in 2014/15 and beyond.

Handout – Appendix E

The handout (based on a CIPFA document 'IFRS – How to tell the story') along with the draft accounts – sets out more details of the changes brought about by IFRS and how the accounting statements now look. The Council's figures are used so that it helps with understanding the format of the accounts and the key messages they provide under IFRS accounting standards.

This also includes a Question and Answer sheet on IFRS to help explain the format of the accounts.

Audit and Governance Meeting – 27th September 2013

Item 7 - Statement of Accounts 2012/2013 – Appendix A

HANDOUT – IFRS changes

Completing the transition to IFRS involved many challenges. But there are opportunities to simplify presentation and make the messages in the financial statements clearer. This briefing note is intended to help non accountants, members and other senior staff to better understand the IFRS-based financial statements for 2012/2013. It therefore provides an overview of the main changes involved and explains how the new formats can be used to convey the key points in the following areas:

- Comparisons with budgets;
- General Fund performance;
- Reserves position; and
- Cash flows.

It also provides some answers to commonly raised questions.

Overview of main changes from UK GAAP to IFRS

	Significant IFRS changes	Substantially the same
Financial Statements	New statements and amended layouts. More flexibility - detail can be in the statements or the notes; terminology can be amended; and the order of the statements can be changed to suit the authority.	New formats consistent with those used in the SORP where this is possible and can be helpful.
Purchase of goods and services	None.	Everything else.
Salaries and Pensions	Untaken holiday pay and similar items accrued for at year end.	Everything else.
Government Grants and Contributions	Capital grants recognised immediately (unless there are conditions) rather than being deferred and matched to expenditure.	Only the same for capital grants if there are conditions
Property, Plant and Equipment (Fixed Assets)	More emphasis on component accounting than under UK GAAP. Impairments taken initially to the Revaluation Reserve rather than Income and Expenditure – like revaluation losses. New class of 'assets held for sale'.	Everything else. Expenditure that can be capitalised under IFRS remains unchanged.
PFI	Assets brought onto the balance sheet where the authority controls the asset. Changes made in SORP 2009 - no change for 2010/11, 2011/12 and 2012/13.	
Leases	90% 'test' to separate finance and operating leases removed. Property leases classified and accounted for as separate leases of land and buildings. Need to assess whether other arrangements contain the substance of a lease.	Everything else. IFRS retains the concept of the finance lease / operating lease distinction, and the tests carried out to classify leases are substantially the same.
Financial Instruments	None – IFRS is identical to UK GAAP.	Everything else.

General Fund performance

The format of the first section of the new Comprehensive Income and Expenditure Statement (CIES), the (Surplus) or Deficit on Provision of Services, is very similar to the Income and Expenditure Account under the SORP, although less detail is required below the Cost of Services. The format of the second section of the CIES is, very similar to the STRGL under the SORP which is shown below.

Comprehensive Income and Expenditure Statement (CIES) 2012/2013

	2012/2013		
	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Central services to the public	35,309	29,759	5,550
Culture and related services	33,017	7,801	25,216
Environment and regulatory services	29,011	4,964	24,047
Planning services	32,867	9,996	22,871
Education services	235,060	203,212	31,848
Children's social care	36,045	4,624	31,421
Highways and transport services	29,767	10,336	19,431
Other housing services	136,991	131,118	5,873
Adult social care	124,332	55,604	68,728
Corporate and democratic core	19,329	8,617	10,712
Non Distributed Costs	7,632	2,554	5,078
Exceptional item – Severance Costs	10,014	0	10,014
Exceptional item – Equal Pay Settlement/Provision	41,319	0	41,319
Cost of Services	770,693	468,585	302,108
Other operating expenditure	114,553	0	114,553
Financing and investment income and expenditure	13,180	5,877	7,303
Taxation and non-specific grant income	0	261,664	(261,664)
(Surplus) or Deficit on Provision of Services	898,426	736,126	162,300
Other Comprehensive Income and Expenditure items:			
Surplus or deficit on the revaluation of fixed assets			(38,635)
Surplus or deficit on the revaluation of available for sale financial assets			(15,605)
Actuarial gain / loss on pension assets / liabilities			48,700
Total Other Comprehensive Income and Expenditure			(5,540)
Total Comprehensive Income and Expenditure			156,760

Equivalent to the SORP's Net cost of Services, and reconciles to the Segmental reporting Note

Equivalent to the surplus or deficit on the I&E Account under the SORP

Whilst the financial statements under IFRS (other than the Movement in Reserves Statement) still don't provide a direct comparison with the budget, one of the new notes to the financial statements – on segmental reporting - can also provide a bridge between budgets and the financial statements.

Comparisons with budgets

For members, probably the most important issue for them is whether the authority has a surplus or deficit compared to its budget (and Council Tax) for the year. Because the financial statements follow accounting standards rather than local government legislation, this hasn't been easy to identify in the past. However, the new Movement in Reserves Statement gives this information. The extract below shows this information. For housing authorities, there is a separate column in the Movement in Reserves Statement showing the equivalent HRA figures; other columns show earmarked reserves etc.

Movement in Reserves Statement

	General Fund Balance £'000
Balance at 31 March 2011	**(20,509)**
Movement in reserves during 2011/2012	
(Surplus) or Deficit on provision of services	64,003
Other Comprehensive Income and Expenditure	0
Total Comprehensive Income and Expenditure	**64,003**
Adjustments between accounting basis & funding basis under regulations	(71,473)
Net (Increase) / Decrease before transfers to Earmarked Reserves	**(7,470)**
Transfers to / from Earmarked Reserves	9,769
(Increase) / Decrease in 2011/2012	**2,299**
Balance at 31 March 2012	**(18,210)**
Movement in reserves during 2012/2013	
(Surplus) or Deficit on provision of services	162,300
Other Comprehensive Income and Expenditure	0
Total Comprehensive Income and Expenditure	**162,300**
Adjustments between accounting basis & funding basis under regulations	(142,950)
Net (Increase) / Decrease before transfers to Earmarked Reserves	19,350
Transfers to / from Earmarked Reserves	(18,074)
(Increase) / Decrease in 2012/2013	1,276
Balance at 31 March 2013	**(16,934)**

Statutory adjustments such as replacing depreciation with MRP, pension liabilities with contributions etc.

Other Comprehensive Income and Expenditure are taken from the Comprehensive Income and Expenditure Statement (CIES) (see example overleaf), which replaces both the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses (STRGL). The Surplus or Deficit on Provision of Services is the equivalent to the Income and Expenditure Account under the SORP. Other Comprehensive Income and Expenditure includes unrealised gains and losses (eg revaluation of land and buildings), and is the equivalent of the STRGL under the previous guidance.

Members will have previously approved the transfers to or from earmarked reserves shown in the Movement in Reserves Statement. The increase or decrease on the General Fund balance which is shown in this Statement would also normally be reported to members as part of the outturn report, although it might have been described as the surplus or deficit for the year.

A loss shown in the CIES is an indication that the costs of providing this year's services have not been covered by income, which will need to be funded by taxpayers in future years. An overall increase in usable reserves despite a loss being shown in the CIES normally means that there is a corresponding change in unusable reserves as for example MRP charges are replaced with depreciation and impairment. The difference will be reflected in the Capital Adjustment Account. Unusable reserves such as the Capital Adjustment Account and the Pensions Reserve will need to be funded in the future, even if it is over a long period, so increases in these balances show an increasing burden on future taxpayers.

Segmental Reporting Note

As set out on previous page, a comparison with budgets is one of the key items members will look for. Since the financial statements contain figures members won't be used to seeing, it is useful to explain the accounts by starting with the Segmental Reporting note.

The note is based on internal management structures and has to include at least 75% of service expenditure. The example below starts off by showing outturn information previously reported to members, and includes a line for support service recharges. However, if your authority reports the costs of support services separately, they could appear as a separate segment.

Note the headings are based on the Authority's departments

	Leader	Deputy Leader	Cabinet Secretary	Children's Services	Health, Housing and Adult Services	Public Health, Wellness and Culture	City Services	Responsive Services and Customer Care	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges and other service income	(787)	(2,239)	(16,268)	(8,601)	(15,208)	(4,969)	(7,041)	(478)	(55,591)
Government grants	(1,402)	(153,612)	(499)	(183,128)	(19,786)	(52)	(3,111)	(1,617)	(363,207)
Other Grants, reimbursements and contributions	(982)	(1,198)	(2,367)	(14,520)	(25,990)	(1,979)	(1,015)	(403)	(48,454)
Total Income	(3,171)	(157,049)	(19,134)	(206,249)	(60,984)	(7,000)	(11,167)	(2,498)	(467,252)
Employee expenses	7,514	41,337	17,233	154,968	34,179	9,300	25,568	3,747	293,846
Other service expenditure	9,959	154,619	51,849	79,697	87,204	9,521	20,232	3,846	416,927
Depreciation, amortisation and impairment	7,030	2,416	7,034	24,346	1,661	5,056	10,486	1,856	59,885
Total Expenditure	24,503	198,372	76,116	259,011	123,044	23,877	56,286	9,449	770,658
Net Expenditure	21,332	41,323	56,982	52,762	62,060	16,877	45,119	6,951	303,406

Outturn figures previously reported to members

The note then needs to be reconciled to the Comprehensive Income and Expenditure Statement (CIES). The example below also doesn't include 100% of the service expenditure – so the missing services appear in the reconciliation. Including all the service expenditure in the note is likely to be more beneficial for members, and simplifies the reconciliation. Other reconciling items are likely to be common year-end adjustments such as for depreciation, pension adjustments etc. provided that these aren't already included in monitoring reports.

	2012/2013 £'000
Net expenditure in the portfolio analysis	**303,406**
Net expenditure of services and support services not included in the analysis	**0**
Amounts in the Comprehensive Income and Expenditure Account not reported to management in the analysis	**(1,298)**
Cost of Service in the Comprehensive Income and Expenditure Statement	**302,108**

(See page 29 of the Accounts)

The cost of services that used to form part of the Income and Expenditure Account now appears in the CIES, and forms part of the Surplus or Deficit. Under IFRS, this figure might be different to that under the SORP, because of changes to the accounting for capital grants. Previously, these were credited to services to match depreciation, whereas capital grants are now credited to taxation and non-specific grant income as they are received (ie not matched with depreciation). This means that service lines won't include capital grant income and also that the Surplus or Deficit may be affected.

Reserves

Reserves – including the General Fund and (where relevant) the Housing Revenue Account – are an indication of the resources available to an authority to deliver services in the future. The key message for members in terms of reserves – especially the General Fund and the HRA – are how the balances have changed over the year, whether the balances are still adequate, and what the balances mean in terms of future budgets and services.

Information on the level of reserves can be found in the Balance Sheet and related notes, and in the Movement in Reserves Statement and related notes. This latter statement will be more useful in explaining the changes that have taken place during the year, including contributions to and from earmarked reserves.

The ***Balance Sheet*** remains under IFRS, and the layout is also very similar to the SORP's Balance Sheet. One difference is that the minimum requirements under IFRS are less detailed than under the SORP. For example, only one line is required for property, plant and equipment – although more details than this can be shown if required. With a few exceptions (a new line for assets held for sale, and the cash line now including 'cash equivalents'), the top half of the IFRS Balance Sheet (assets and liabilities) looks very similar to the SORP Balance Sheet.

The bottom half of the Balance Sheet (reserves) is where the main changes have occurred. The key figures are as follows:

	Note	**31 March 2013 £'000**
Usable Reserves	8 / 23	**(165,252)**
Unusable Reserves	24	**(176,060)**
Total Reserves		**(341,312)**

The minimum requirement is to include only two lines – usable reserves (such as General Fund and earmarked reserves) and unusable reserves (such as the Revaluation Reserve and the Capital Adjustment Account).

Other Reserves can be shown on the balance sheet as long as these totals are shown

Whilst the Balance Sheet aims to show those Reserves over which members have control, some of the unusable will become a charge against the revenue account – or usable reserves – over time. In some cases this might be within a year or two.

Not all reserves can be used to deliver services, and the Code reflects this by reporting reserves in two groups – 'usable' and 'unusable' reserves. Usable reserves such as the General Fund and earmarked reserves are those where members will be involved in deciding on the levels maintained, and their use. Unusable reserves such as the Revaluation Reserve and the Capital Adjustment Account aren't subject to such member influence.

Cash flows

The final statement required by the Code is the ***Cash Flow Statement.*** Although similar to the SORP Cash Flow Statement, the cash flows of an authority are presented over fewer headings under IFRS than under SORP. Consequently, the statement will be quite short if the minimum presentation is used. A key difference is that the statement balances to the movement in 'cash and cash equivalents', not just to the movement in cash. The indirect method could look like this:

	2012/2013 £000
Net (surplus) or deficit on the provision of services	**162,300**
Adjust net surplus or deficit on the provision of services for non cash movements	**(187,289)**
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	**21,311**
Net cash flows from operating activities	**(3,678)**
Investing activities	**4,439**
Financing Activities	**8,039**
Net (increase) or decrease in cash and cash equivalents The movement in the cash equivalents is reconciled to the difference between the 2 figures below as follows:	**8,800**
Cash and cash equivalents at the beginning of the reporting period	32,697
Cash and cash equivalents at the end of the reporting period	**23,897**

Surplus or Deficit taken from Comprehensive Income ad Expenditure Statement

3 groups of transactions
- Operating
- Investing
- Financing

Cash and cash equivalents figures from the Balance Sheet

IFRS questions and answers

IFRS – what is it?

International Financial Reporting Standards (IFRSs) are a suite of accounting standards used across the world. IFRS is the international equivalent of the Financial Reporting Standards (FRSs) used until now in the UK.

Why move to IFRS?

In the 2007 Budget, the then-chancellor announced that the UK Public Sector would adopt IFRS, as this was seen as best practice and allowed for international comparisons to be made.

It was also a question of timing. The UK Accounting Standards Board (ASB) has been reviewing the future of UK GAAP and in the short to medium term all but the smallest organisations will be producing accounts based on IFRS.

Why does IFRS change everything?

It doesn't. Recent UK standards have been based on IFRS, so many requirements are unchanged. There are differences, and the work required to reflect these changes shouldn't be underestimated, but for many transactions, there is little or no change as shown in the table on page 1.

The accounts are already too long – and IFRS will make them worse.

Yes, the accounts can be long, but local authorities have a complex story to tell. IFRS does introduce more disclosures. But notes only need to be produced if they are material - leaving out notes that aren't material or required by legislation is a good start.

The Pension deficit is meaningless – why do we have to show it?

The deficit doesn't have to be funded from this year's budget, but it's still a true cost – it represents the amount that will need to be found from future budgets to pay for pension entitlements already incurred in delivering services. So it's a real call on future funding. Not showing this would hide the liability that the authority has incurred.

This also applies to other reserves. Like the Pension Reserve, the Capital Adjustment Account, the Unequal Pay Back Pay Account and similar reserves all do one thing: they hold expenditure that the authority has incurred but not yet financed. Think of them as being a bit like a credit card balance - these amounts will have to be funded in future, either from taxation or from usable reserves.

Concerns have been expressed that all these reserves make the Balance Sheet incomprehensible. But all that needs to be shown on the Balance Sheet itself are 'Usable Reserves' and 'Unusable Reserves' – the details can all go in a note. This will help to de-clutter the Balance Sheet.

A lot of detail is required in relation to employees' pay. Is it really needed?

Yes - it's a legal requirement. It's also in line with the rest of the public sector, and in the current climate of transparency, local authorities can't be seen to be less open than everyone else.

Mr S Nicklin
Director
Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

Item No. 7i

Date: 27th September 2013
Our ref: CFA/DDN
Your ref:

Dear Steve,

Sunderland City Council – Letter of Representation for the year ended 31st March 2013

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Executive Director of Commercial and Corporate Services that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material affect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Cabinet and Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

Fraud and error

I acknowledge my responsibility as Executive Director of Commercial and Corporate Services for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's Statement of Accounts communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. A further impairment review is therefore not considered necessary.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the statement of accounts as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix.

Signed on behalf of Sunderland City Council.

I confirm that this letter has been discussed and agreed by the Audit and Governance Committee held on 27th September 2013.

Signed: ……………………………………………………………….

Name: Malcolm Page

Position: Executive Director of Commercial and Corporate Services

MAZARS

Sunderland City Council

Audit Completion Report
Year ended 31 March 2013

September 2013

Contents

Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to Non-Executive Directors, Members or officers are prepared for the sole use of the audited body and we take no responsibility to any Non-Executive Director, Member or Officer in their individual capacity or to any third party.

1. Purpose of this document

This document has been prepared to feed back the findings of our audit for the year ended 31 March 2013 and forms the basis for discussion at the Audit and Governance Committee meeting on 27 September 2013.

Our communication with you is important to:

- share information to assist both the auditor and those charged with governance of Sunderland City Council to fulfil their respective responsibilities;
- provide constructive observations arising from the audit process to those charged with governance of Sunderland City Council;
- ensure as part of the two-way communication process we, as external auditors, gain an understanding of the attitude and views of those charged with governance of Sunderland City Council to the internal and external operational, financial, compliance and other risks which might affect the statement of accounts, including the likelihood of those risks materialising and how they are managed; and
- receive feedback from those charged with governance as to the performance of the engagement team.

2. Independence

As part of our on-going risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

No further threats to our independence have been identified since we issued our Audit Strategy Memorandum.

3. Our audit approach

Our audit has been conducted in accordance with International Standards of Auditing (UK and Ireland) issued by the Auditing Practices Board.

There have been no changes to our audit approach as communicated to you in the Audit Strategy Memorandum dated 19 February 2013.

4. Overall conclusion and opinion

At the time of issuing this report we anticipate:

- issuing an unqualified opinion on your statement of accounts; and
- concluding that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

5. Limitations

Our audit procedures, which have been designed to enable us to express an opinion on the statement of accounts, have included the examination of the transactions and the controls thereon of Sunderland City Council. The International Standards on Auditing (UK and Ireland) do not require us to design audit procedures for the purpose of identifying supplementary matters to communicate with those charged with governance.

Our audit included consideration of internal controls relevant to the preparation of the statement of accounts in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

We have included in this report only those matters that have come to our attention as a result of our normal audit procedures and, consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

6. Audit status

We have substantially completed our audit of the statement of accounts for the year ended 31 March 2013.

Alongside our audit of your statement of accounts we are required to review your Whole of Government Accounts submission and report to the National Audit Office in line with their group instructions and guidance produced by the Audit Commission. We anticipate completing this work by 30 September 2013.

As at the time of preparing this report, there are no significant matters outstanding.

We expect to be able to certify the closure of the 2012/13 audit by 30 September 2013. We have not received any objections to the Authority's 2012/13 statement of accounts from electors and have no outstanding matters or correspondence with electors.

The Audit Commission has issued guidance on 17 September 2013 in relation to accounting for harbour authorities, which might impact on the Council as the statutory harbour authority for the Port of Sunderland. We will consider the implications of this guidance and discuss it with the Council's officers and take any appropriate action arising from this. However, at this stage we can confirm that it does not impact on our audit of the Council's accounts, or the issue of our audit opinion, VFM conclusion and certificate.

7. Significant risks and key judgement areas identified during planning

Set out below are the significant risks and key areas of management judgement in the Audit Strategy Memorandum of 19 February 2013 to which we paid particular attention in order to reduce the risk of material misstatement in the statement of accounts. We have detailed below the work performed to address each risk and judgement and our conclusions.

Significant audit risks	How we addressed this risk	Audit conclusion
Property, Plant and Equipment (PPE) PPE is subject to significant estimation uncertainty and is based on valuations provided by your in-house valuer. There is a risk that the valuation reported in the financial statements will be materially misstated due to: • basis of valuation not in line with IFRS requirements; • incorrect assessments of the assets' estimated useful lives; • incorrect asset classifications; • failure to recognise impairments or other significant changes in asset values; and • incorrect distinction between revenue and capital expenditure. There is also a risk that the Council will fail to meet: • IFRS and Code requirements, and statutory requirements for capital accounting and financing.	We reviewed the Council's arrangements for: • instructing the valuer and relying on their work; • maintaining an accurate fixed asset register; • establishing estimates of asset lives; and • identifying impairments. We also carried out tests of detail on capital transactions, balances and disclosures in the accounts. We did identify a car park valued at £607k that should have been removed from PPE, but this is not material and the accounts have not been amended (see unadjusted errors on page 11).	Apart from the non-material issue of the car park, our work has provided the assurance we sought and has not highlighted any other issues to bring to your attention.

Significant audit risks	How we addressed this risk	Audit conclusion
Pension assets and liabilities There is considerable uncertainty on the estimate of the local government pension scheme liability. These are material and highly complex transactions, reliant to a large extent on information provided by third parties. Therefore there is an inherent risk that the financial statements may be materially misstated.	We reviewed the Council's processes for engaging with pension fund actuary and: • confirmed the experience and competence of the actuary; • assessed the reasonableness of the key assumptions used; • reviewed the information provided and outputs received; and • received assurances from the auditor of the Tyne & Wear Pension Fund around the position of this scheme. We checked that the disclosures in the financial statements properly reflected the actuary's report.	Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.

Significant audit risks	How we addressed this risk	Audit conclusion
Newcastle International Airport Together with its partners, the Council participated in a major refinancing of the debt of Newcastle International Airport during 2012/13. This will have a material impact on the disclosures in the financial statements. It is important to include an appropriate valuation for the airport in the 2012/13 accounts and reflect the loan refinancing transactions appropriately.	We discussed the appropriate accounting treatment with officers prior to the production of the accounts. We ensured that the financial statements presented a true and fair view of these transactions, and reviewed the basis for the valuation of the airport included in the accounts.	Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.
Potential equal pay liabilities The Council has previously disclosed a contingent liability in relation to equal pay. Following the outcome of a number of employment tribunals, the Council is now exploring settlement of a number of equal pay cases. It was important to ensure that appropriate disclosures are made in the financial statements. There could be significant implications for the accounts if the Council needs to make specific provision for its potential liabilities.	We discussed the appropriate accounting treatment with officers prior to the production of the accounts. We ensured that the financial statements presented a true and fair view in relation to equal pay liabilities. Following discussion with officers the equal pay provision that had been established in year was reclassified from a long term provision to a short term provision.	The equal pay provision was reclassified from a long term provision to a short term provision. Our work has provided the assurance we sought and has not highlighted any other issues to bring to your attention.

Significant audit risks	How we addressed this risk	Audit conclusion
Group accounts The Council established Care and Support Sunderland Ltd following the collapse of Choices Care Ltd, and 2012/13 is its first full year of trading. The Council is also exploring a number of other options for alternative service delivery which include the potential for company formation. The Council is still of the view that it does not need to produce group accounts for 2012/13 on the grounds of quantitative and qualitative materiality.	We reviewed the Council's assessment that it did not need to produce group accounts in 2012/13. We agreed that this was a fair assessment. Our view is that it is very likely that group accounts will be required in future years, given the expansion of activity through separate companies after 1 April 2013.	Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.
Management override of controls In any organisation, management may be in a position to override the financial controls that it has in place. In the current economic climate, the Council may face pressure to deliver financial performance levels it has previously forecast. A breach of the controls over journal entries, accounting estimates and other accounts preparation processes may result in a material misstatement. I therefore consider management override of controls as a significant risk and adapt my audit procedures accordingly.	We updated our understanding and evaluation of internal control processes and procedures as part of our audit planning, including completion of a fraud risk assessment. As part of this process we also obtained information from the Audit and Governance Committee and management on processes for assessing the risk of fraud in the financial statements and arrangements in place to identify, respond to and report fraud. We completed audit testing of accounting estimates and journal entries.	Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.

Significant audit risks	How we addressed this risk	Audit conclusion
Risk of fraud in revenue and expenditure recognition There is a presumption under the ISAs that there is a significant risk of fraud in the timing of revenue recognition leading to the material misstatement of revenue overall. This is because revenue is an area of particular focus by users of financial statements and can be subject to judgements as to when the full risk and reward of the ownership of an asset has passed. For local authorities, the same risk applies to the recognition of expenditure.	We tested cut off of transactions to assess whether income and expenditure was included in the appropriate year. We also carried out analytical review procedures.	Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.

In addition to significant risks, we also identified in the Audit Strategy Memorandum the key areas of management judgement that would impact the statement of accounts. We detail below the work performed to evaluate the robustness of each judgement and our conclusions.

Areas of management judgement	How we addressed this judgement	Audit conclusion
Property, plant and equipment Pension liabilities as assessed by the actuary Valuation of Newcastle International Airport Estimates in relation to potential equal pay liabilities	We carried out the work identified in the significant risks table above.	The equal pay provision was reclassified from a long term provision to a short term provision, and there was a non-material error in PPE relating to a car park. Our work has provided the assurance we sought and has not highlighted any other issues to bring to your attention.
Provisions are made for various known liabilities of uncertain timing, such as claims against the Council which will not be met from insurance	We tested material provisions against accounting requirements. We assessed whether the Council had provided for known liabilities.	The equal pay provision was reclassified from a long term provision to a short term provision. Our work has provided the assurance we sought and has not highlighted any other issues to bring to your attention.

8. Audit findings

It is a requirement of ISA 260 that significant findings from the audit are communicated to those charged with governance.

Significant qualitative aspects of accounting practices
ISA 260 requires us to communicate to those charged with governance our views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. This communication may include: **Accounting Policies** • The appropriateness of the accounting policies to the particular circumstances of the entity. Where acceptable alternative accounting policies exist, this communication may include identification of the financial statement items that are affected by the choice of significant accounting policies. • Any changes in significant accounting policies, including the application of new accounting pronouncements. **Accounting Estimates** • For items for which estimates are significant, issues communicated could include: management's identification of accounting estimates, management's process for making accounting estimates, risks of material misstatement, indicators of possible management bias and disclosure of estimation uncertainty in the statement of accounts. **Financial Statement Disclosures** • The issues involved, and related judgements made, in formulating particularly sensitive financial statement disclosures (for example, disclosures related to revenue recognition, remuneration, going concern, subsequent events, and contingency issues). • The overall neutrality, consistency and clarity of the disclosures in the statement of accounts. We have not identified any issues in respect of the Council's accounting policies, accounting estimates or disclosures which we need to bring to your attention.

9. Internal control

The purpose of our audit was to express an opinion on the statement of accounts. As part of our audit we have considered the internal controls in place relevant to the preparation of the statement of accounts, in order to design audit procedures to allow us to express an opinion on the statement of accounts, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters that we report are limited to those deficiencies and other control recommendations that we have identified during our audit and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported.

We have not identified any significant deficiencies in the accounting and internal controls systems during the course of the audit that need to be brought to your attention.

10. Misstatements

Unadjusted misstatements

Unadjusted misstatements					
		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr	Cr	Dr	Cr
		£'000	£'000	£'000	£'000
1	Dr Unusable Reserves (Capital Adjustment Account)			607	
	Cr Property, Plant & Equipment (Land & Buildings)				607
2	Dr Other Operating Expenditure (Gain / losses on disposal of non current assets)	607			
	Cr Movement in Reserves Statement (Adjustment involving the Capital Adjustment Account)		607		
	Being the removal of a car park from property, plant and equipment which has now had the new Software Centre built over it. The Software Centre land and buildings valuation has been included correctly, but the value of the car park from its previous use has not been written out. Management do not wish to correct this error as it is not material.				

Adjusted misstatements

The accounts have been amended for the following misstatements identified during the audit:

- **Reclassification of Long Term Provisions as Short Term Provisions as Other Long Term Liabilities:**

  Balance Sheet: Dr Long term provisions £34,777k and Cr Short term provisions £34,777k

  [To reflect that equal pay provisions are expected to be short term provisions rather than long term provisions.]

- **Reclassification of PFI Liabilities between Current and Long Term Liabilities:**

  Dr Other long term liabilities £1,250k and Cr Other short term liabilities £1,250k

  [Reclassification of the element of PFI liabilities and other long term liabilities that are payable in the next 12 months as a current liability. Prior year figures were also amended.]

Disclosure amendments

The disclosure notes were amended as follows:

- To reflect the impact of the adjusted misstatements throughout the accounts, including adjustments to prior year comparatives.
- Some corrections were made to the Annual Governance Statement disclosures.
- Note 1, significant accounting policies was amended to clarify some relatively minor issues.
- Note 2, accounting standards that have been issued but not yet adopted, was updated to reflect the expected financial impact of changes in the pension disclosures.

- Note 6, events after the balance sheet date was amended to reflect some subsequent events, including the winding up of the Tyne & Wear Economic Development Company, the establishment of Sunderland Live Ltd, the number of employees who have taken up the latest severance scheme and the transfer of a number of schools to academy status.
- Note 34, external audit costs, was updated to show the correct figures for the 2012/13 audit year.
- Note 37, related parties, was updated to include the North East Local Enterprise Partnership.
- A number of other minor errors, omissions, clarifications and typographical errors were corrected.

11. Value for money

We are required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We intend to issue an unqualified conclusion stating the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. Our draft conclusion is included in the draft Auditor's Report in Appendix 3.

We have assessed your arrangements against the two criteria specified by the Audit Commission and set out below our conclusion against each of them.

Criteria 1: Financial Resilience – (met)

The Council managed its financial position very well. Budget setting was robust, and its close monitoring ensured delivery of spending within budget. The outturn report for 2012/13 shows that the Council underspent against its annual revenue budget by £6 million, whilst at the same time delivering the services it had specified.

The latest VFM profiles, produced by the Audit Commission, show the General Fund Balance was close to the average for similar authorities, and that the Council is prudent in setting aside earmarked reserves. Earmarked reserves are in place for specific plans and projects and will help the Council manage the financial challenges it faces over the next few years. During 2012/13 the Council's usable reserves reduced by £15m overall and assisted in change management.

The Council is financially resilient. The Medium Term Financial Strategy sets out how the Council proposes to deal with the difficult economic prospects and the cuts in central government grant funding. The Council has also considered the impact of the retention of business rates and localisation of council tax support, which also has a potentially adverse financial impact, and is monitoring these areas closely.

Criteria 2: Securing economy, efficiency and effectiveness – (met)

In recent years, the Council has made significant changes to secure its future viability as a community leadership council. In the financial years 2010/11, 2011/12 and 2012/13 the Council has delivered savings of almost £100m to meet grant reductions and cost pressures, and in the next 3 year period it is expecting to have to deliver a further similar amount.

The Council has delivered ambitious plans and has recognised that there is more to do:

- By redesigning key activity areas so they are financially sustainable, including exploring alternative models of service delivery, such as local authority trading companies, joint ventures and mutuals, and working more closely with local communities, partners and the community and voluntary sector
- Addressing the financial pressures in social care, created by the demand for services from an ageing population, in a time of financial constraints
- Promoting economic regeneration through a local asset backed vehicle (LABV) with a private sector partner
- Delivering its City Deal with Government, including developing a new advanced manufacturing site near Nissan, and developing the Vaux site and the city centre
- Delivering the new Wear crossing, and trying to maintain a strong capital programme to improve infrastructure and provide stimulus to the local economy
- Working with its local authority partners to develop a Combined Authority to deal with economic growth, skills and transportation and making a success of the North East Local Enterprise Partnership (NELEP), where the Council has a lead role as accountable body.

Significant risks

Our Audit Strategy Memorandum, issued on 19 February 2013, reported to you the significant risks that were relevant to our Value for Money conclusion. We have set out below our work addressing each of the risks we identified.

Criteria	Identified Risk	Audit conclusion
Financial Resilience **Securing economy, efficiency and effectiveness**	The Council faces financial pressures from reduced funding and continues to identify plans to deliver future savings. Without robust budgetary control and delivery of its action plans, the Council's financial resilience and service performance could deteriorate.	The Council continues to closely monitor the delivery of its action plans and its budgets. The outturn for 2012/13 showed that the Council has achieved an underspend against budget, more than delivering the savings required so far, and it also has healthy financial reserves to help it manage the future cuts that are likely to be required. To date, the Council has managed to drive further improvement in performance despite the cuts in spending. The Council is preparing for difficult decisions in future years as further cuts in funding are required.

Appendices

Appendix 1 – Management representations

Sunderland City Council

27 September 2013

Dear Mr Nicklin

Sunderland City Council - audit for year ended 31 March 2013

This representation letter is provided in connection with your audit of the statement of accounts for Sunderland City Council for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information

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- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Executive Director of Commercial and Corporate Services that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material affect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Cabinet and Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

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I acknowledge my responsibility as Executive Director of Commercial and Corporate Services for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

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- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
  - management and those charged with governance;
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I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. A further impairment review is therefore not considered necessary.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the

United Kingdom require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the statement of accounts as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix.

Yours faithfully

Malcolm Page

Executive Director of Commercial and Corporate Services

Sunderland City Council

Appendix to letter of representation

Schedule of unadjusted misstatements

Unadjusted misstatements		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr	Cr	Dr	Cr
		£'000	£'000	£'000	£'000
1	Dr Unusable Reserves (Capital Adjustment Account)			607	
	Cr Property, Plant & Equipment (Land & Buildings)				607
2	Dr Other Operating Expenditure (Gain / losses on disposal of non current assets)	607			
	Cr Movement in Reserves Statement (Adjustment involving the Capital Adjustment Account)		607		
	Being the removal of a car park from property, plant and equipment which has now had the new Software Centre built over it. The Software Centre land and buildings valuation has been included correctly, but the value of the car park from its previous use has not been written out. We do not wish to correct this error as it is not material.				

Appendix 2 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SUNDERLAND CITY COUNCIL

Opinion on the Council's financial statements

We have audited the financial statements of Sunderland City Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Sunderland City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Executive Director of Commercial and Corporate Services and the Auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Executive Director of Commercial and Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Commercial and Corporate Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Sunderland City Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Council and the Auditor

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission on 1 November 2012, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission on 1 November 2012, we are satisfied that, in all significant respects, Sunderland City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

We certify that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Steve Nicklin CPFA

For and on behalf of Mazars LLP, Appointed Auditors

The Rivergreen Centre
Aykley Heads
Durham, DH1 5TS

30 September 2013

Appendix 3 – Required communication

ISA 260 'Communication With Those Charged With Governance' and ISA 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' require the auditor to communicate a number of matters tp those charged with governance. These matters are set out below along with our proposed approach. We are required to ensure that all points listed below are communicated to those charged with governance.

Required communication	When and how we will communicate
Respective responsibilities of auditor and those charged with governance. Our responsibility for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the statement of accounts. The audit of the statement of accounts does not relieve management or those charged with governance of their responsibilities.	This information was included in the Audit Strategy Memorandum.

<table>
<tr><th>Required communication</th><th>When and how we will communicate</th></tr>
<tr><td>Communication of the planned scope and timing of the audit.

Matters communicated include:
▪ Significant audit risks and how we will address them;
▪ Our approach to internal control relevant to the audit;
▪ The application of the concept of materiality in the context of an audit;
▪ Our use of the work of internal audit;
▪ Your approach to internal control and how you oversee the effectiveness of internal control procedures;
▪ The attitude, awareness and action of those charged with governance concerning the detection or possibility of fraud; and
Your response to new accounting standards, corporate governance practices and related matters.</td><td>This information was included in the Audit Strategy Memorandum.</td></tr>
<tr><td>Our views on significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures.

When applicable, why we consider a significant accounting practice not to be appropriate to the entity.</td><td>Section 8 of this report.</td></tr>
</table>

Required communication	When and how we will communicate
Significant difficulties, if any, encountered during the audit. Significant difficulties encountered during the audit may include such matters as: ▪ Significant delays in management providing required information; ▪ An unnecessarily brief time within which to complete the audit; ▪ Extensive unexpected effort required to obtain sufficient appropriate audit evidence; ▪ The unavailability of expected information; ▪ Restrictions imposed on the auditor by management; and ▪ Management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern.	No significant difficulties were encountered.
Details of significant matters discussed with, or subject to correspondence with management.	Not applicable.
Details of written representations we require for our audit.	Appendix 1 to this report.
Any other matters which we consider to be significant to the oversight of the financial reporting process.	Section 8 of this report.
Statement that the engagement team and the firm have complied with relevant ethical requirements regarding independence. Written disclosure of relationships which have a bearing on our independence and safeguards we have put in place, details of non audit services provided and written confirmation of our independence.	This information was included in the Audit Strategy Memorandum.

Required communication	When and how we will communicate
Form, timing and general content of communications.	We issue our Audit Completion Report. Should you require us to communicate in a different way please let us know.
Our evaluation of the adequacy of the communication process between ourselves and those charged with governance. This may include observations on appropriateness and timing of action taken by you in response to matters we have raised, the openness of your communication with us, your willingness and capacity to meet with us without management being present, your opportunity to fully comprehend matters we have raised, the extent to which you probe issues raised and our recommendations, any communication we have had in establishing with you the form, timing and general content of communications, your awareness of how our discussions impact on your governance and management responsibilities and whether your communication with us meets legal and regulatory requirements.	Our view is that there is an adequate communication process between ourselves and those charged with governance.
Any significant deficiencies and other control recommendations in respect of internal control that we have identified during the audit.	Section 9 of this report.

Item No. 7iii

Sunderland City Council

Statement of Accounts

2012/2013

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Cabinet 2012/2013

Cabinet membership and responsibilities were reviewed and amended during the financial year.

Cabinet membership and responsibilities from 1st April 2012 to 15th May 2012 were as set out below:

Member	Portfolio
P. Watson	Leader of the Council
H. Trueman	Deputy Leader of the Council
M. Speding	Cabinet Secretary
P. Smith	Children and Learning City
B. Charlton	Prosperous City
D. Allan	Health and Well Being
J. Kelly	Safer City and Culture
J. Blackburn	Attractive and Inclusive City
T. Wright	Sustainable Communities
C. Gofton	Responsive Services and Customer Care

Subsequent to 16th May 2012, Cabinet membership and responsibilities are as below:

Member	Portfolio
P. Watson	Leader of the Council
H. Trueman	Deputy Leader of the Council
M. Speding	Cabinet Secretary
P. Smith	Children's Services
G. Miller	Health, Housing and Adults
J. Kelly	Public Health, Wellness and Culture
J. Blackburn	City Services
C. Gofton	Responsive Services and Customer Care

Introduction

A published and audited Statement of Accounts is at the heart of ensuring proper accountability for the use of local and national taxpayers' money. We recognise, however, that the Council's Accounts can only tell part of the story. The Council needs to continue to demonstrate that it is aiming to operate to the highest standards of conduct in accordance with the principles of corporate governance and has a robust system of internal control in place.

With regard to corporate governance, the Council considers an annual review of its Code of Corporate Governance. The 2012/2013 review was considered by the Audit and Governance Committee in June and will be reported to Cabinet in July followed by full Council. The Code follows the framework recommended by CIPFA / SOLACE. The review assesses the Council's arrangements for compliance with the Code, which identifies the underlying principles of corporate governance - openness and inclusivity; integrity; and accountability – across the various dimensions of the Council's business. The review found that the Council continues to have robust and comprehensive arrangements in place and has identified a small number of areas for improvement and development, which will be acted upon during 2013/2014.

In line with guidance issued by CIPFA, the Council has a well established Audit and Governance Committee which carries out the role of an Audit Committee. The role of this Committee involves not only approving the Statement of Accounts, but also reviewing arrangements for areas such as treasury management, risk management, the wider internal control environment and also consideration of internal and external audit plans, progress reports and annual reports.

Within the Statement of Accounts, an Annual Governance Statement has been included, which confirms that there are sound systems of Internal Control in place. We will however continue to ensure action is taken where necessary to maintain and develop the system of Internal Control in the future.

Councillor Paul Watson Leader of the Council	Dave Smith Chief Executive	Malcolm Page CPFA MBA Executive Director of Commercial and Corporate Services

Dated: 27th September 2013

Certification of the Statement of Accounts

Statement of Accounts 2012/2013 (Subject to Audit) Certification by the Responsible Finance Officer

As the Council's Responsible Finance Officer, I hereby certify that in accordance with the Accounts and Audit Regulations 2011 Regulation 8 (2) the Statement of Accounts for 2012/2013 (subject to audit) presents a true and fair view of the financial position of Sunderland City Council as at 31st March 2013 and its income and expenditure for the year then ended.

Mr M Page CPFA MBA
Executive Director of Commercial and Corporate Services

Dated: 28th June 2013

Audited Statement of Accounts 2012/2013 Certification on behalf of those charged with governance

As Chairman of the Audit and Governance Committee held on 27th September 2013, I hereby acknowledge receipt of the audited Statement of Accounts for 2012/2013 by this Committee, in accordance with the Accounts and Audit Regulations 2011 Regulation 8(3), and confirm that the Statement of Accounts was approved at the Audit and Governance Committee of 27th September 2013 in accordance with sub-paragraph 8 (3) (c) with regard to the aforementioned Regulations.

Mr. G.N. Cook
Chairman of the Audit and Governance Committee

Dated: 27th September 2013

Audited Statement of Accounts 2012/2013 Certification by the Responsible Finance Officer

As the Council's Responsible Finance Officer, I hereby re-certify the audited statement of accounts for 2012/2013 in accordance with Regulation 8 (2) of the Accounts and Audit Regulations 2011.

Mr M Page CPFA MBA
Executive Director of Commercial and Corporate Services

Dated: 27th September 2013

Foreword by the Executive Director of Commercial and Corporate Services

This Statement of Accounts shows, in the following pages, the Council's final accounts for 2012/2013. It has been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2012/2013' (based on International Financial Reporting Standards (IFRS)) known more commonly as the Code. The Code constitutes 'proper accounting practice' under the terms of the Local Government Act 2003 and the Accounts and Audit Regulations 2011.

Certain financial statements are required to be prepared under the Code and these are detailed below:

1. Statement of Responsibilities

This discloses the respective responsibilities of the Council and the Chief Finance Officer.

2. Movement in Reserves Statement (MiRS)

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other unusable reserves.

3. Comprehensive Income and Expenditure Statement

This statement shows the accounting costs in the year of providing services in accordance with generally accepted accounting practice, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

4. Balance Sheet

The Balance Sheet shows the value 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 reserves held by the Council.

5. Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period.

6. Notes (including a summary of significant accounting policies and other explanatory information)

The Notes to the financial statements have three significant roles, they:

- Present information about the basis of preparation of the financial statements and the specific accounting policies used.
- Disclose information that is required by the Code that is not presented elsewhere in the financial statements.
- Disclose information that is not presented elsewhere in the financial statements, but is relevant to their understanding.

7. Collection Fund Account

The Collection Fund (England) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non domestic rates.

Revenue Expenditure and Income Summary

The estimated net revenue expenditure for 2012/2013 to be met from Government Grants and local taxpayers was approved at £244.988m. This meant that the Band D Council Tax, after allowing for Revenue Support Grant and National Non Domestic Rates and including both the Police and Fire and Rescue Authority precepts, was set at £1,342.80 for 2012/2013. This represented no Council Tax increase from the 2011/2012 Band D Council Tax level as a Council Tax freeze was implemented in setting the 2012/2013 budget. The Council again set the lowest Council Tax level in the whole of the North East region for 2012/2013 for the sixth consecutive year and has continued to set the lowest Council Tax in Tyne and Wear since Council Tax was introduced in 1993/1994.

Comprehensive and detailed budget monitoring is carried out monthly during the year and is supplemented by formal budget monitoring reports which are made quarterly to the Council's Cabinet. These detail the outcome of the review of budgets and spending forecasts for both capital and revenue expenditure and also include a review of certain other key financial items including Treasury Management and Prudential Indicators. Reporting during the financial year continues to reflect strong and robust financial management, continuing the Council's strong track record in this regard.

The table on the next page summarises the financial position for the year 2012/2013 for General Fund Balances, which is made up of the Council's General Reserve and Balances held by Schools under the Local Management Scheme, in accordance with the Code and also shows the original budget and the revised budget positions for 2012/2013 as compared to the actual position for 2012/2013.

Foreword by the Executive Director of Commercial and Corporate Services (Continued)

Financial position for the year 2012/2013 for General Fund Balances

	2012/2013 Original Estimate £'000	2012/2013 Revised Estimate £'000	2012/2013 Actual £'000	2011/2012 Actual £'000
Expenditure on Services	231,591	231,591	244,717	225,738
Levies and Precepts	18,101	18,101	18,101	19,101
(Surplus) / Deficit from Trading Operations and Dividends	0	0	(653)	413
Transfers to / (from) Capital Reserves *	0	0	3,914	(1,300)
Transfers to / (from) Revenue Reserves *	(2,272)	(2,272)	(17,181)	15,226
Total Net Expenditure	247,420	247,420	248,898	259,178
Financed by:				
Revenue Support Grant and General Grants	5,196	5,196	5,398	40,481
National Non Domestic rates	145,368	145,368	145,368	120,771
Council Tax Collection Fund Receipts	96,356	96,356	96,356	95,128
Council Tax Surplus	500	500	500	500
Total Net Budget Requirement	247,420	247,420	247,622	256,880
Addition / (Use):				
General Reserve (See Note 1)	0	0	0	(4,849)
Schools LMS Reserve (See Note 2)	0	0	(1,276)	2,550
General Fund Balance brought forward:				
General Reserve	7,570	7,570	7,570	12,419
School LMS Reserve	10,640	10,640	10,640	8,090
General Fund Balance carried forward:				
General Reserve	**7,570**	**7,570**	**7,570**	**7,570**
School LMS Reserve	**10,640**	**10,640**	**9,364**	**10,640**

***** This excludes the effect of IAS19 pension fund adjustments.
****** This figure includes an adjustment for Council Tax debtors and creditors as required under the Code of practice on Local Authority Accounting in the United Kingdom 2012/2013.
*** Movements in Capital and Revenue usable reserves are detailed in Note 8 (page 59).

Foreword by the Executive Director of Commercial and Corporate Services (Continued)

Note 1 – General Reserve

The table shows the general reserve balance of £7.570 million has been maintained as forecast at estimate stage. This is after taking into account a transfer of funds to the Strategic Investment Reserve as reported to Cabinet as part of the outturn report.

The outturn position takes account of the following variations to budget during 2012/2013:

- £1.078 million debt charge and interest on investment savings due to slippage in the capital programme and additional investment income, over and above that utilised to fund in-year transitional costs as agreed by Cabinet at third review stage;

- Planned one-off under spending on contingencies of £4.831million;

- Other net savings of £0.122 million in respect of additional one-off income and other variations in non-delegated expenditure.

The net under spend of £6.031 million has been transferred to the Strategic Investment Reserve to support one off transitional costs arising from the implementation of budget savings proposals in 2013/2014 and future years as approved as part of the outturn report.

Note 2 - Movement on Locally Managed Schools Reserve

The Education Reform Act 1988 provides for the carry forward of individual school balances. These earmarked reserves are not for Council use and the level of the reserve, in accordance with the Code, forms part of the movement in General Fund Balances in the Movement in Reserves Statement. The movement in school balances during 2012/2013 amounted to a net use of balances of £1.276m (£2.550m net return to balances in 2011/2012), as a result of increased spending by schools and is reflected in the Statement of Accounts within the Comprehensive Income and Expenditure Statement on the Education cost of service line. School balances are fully committed and are required to meet the challenges in respect of reduced funding in 2013/2014 and future years.

As a result, the balance of this reserve as at 31st March 2013 decreased to £9.364m compared to £10.640m as at 31st March 2012. Further details are set out in Note 8 (page 59) to the Accounts.

Foreword by the Executive Director of Commercial and Corporate Services (Continued)

Financial Planning and the Impact of Government Funding Reductions

The Government Spending Review of 2010 set out the Government's spending plans for the period 2011/2012 to 2014/2015 which aimed to eliminate the national deficit by 2014/2015. The Government has regularly revised its forecasts and in the Chancellor's Budget 2013 statement it was confirmed that public sector funding reductions are now likely until at least 2016/2017.

In the three year period 2010/2011 to 2012/2013, Sunderland City Council has had to achieve savings of £98.9 million to meet reductions in government funding and cost pressures.

£28 million of these reductions were achieved in 2012/2013 through the continued implementation of the Sunderland Way of Working improvement plans and programmed savings which aimed to meet need and achieve savings while protecting as far as possible frontline services. This continued the aggressive approach to reducing back office support costs and working more smartly by rationalising property and ICT. In addition Directorate three year improvement plans have reshaped services with the aim of protecting core services and ensuring they continue to be more responsive to local needs, with customers at the heart of service delivery. Service reviews have included consideration of alternative methods of service delivery in order to identify the most effective and efficient models for service provision.

Further reductions in Government funding and cost pressures mean that the budget for 2013/2014 has been set taking account of a further £37 million of reductions:

- £14.5 million to be achieved from continued implementation of service reviews to modernise and improve services;
- £7.2 million of savings to be achieved from the further reconfiguration of back office support to meet future business need;
- £5.1 million achieved from an updated approach to workforce planning;
- £2.7 million to be achieved by utilising New Homes Bonus Grant and Integrated Transport Authority (ITA) levy savings;
- £2.0 million of savings to be achieved from the integration of public health arrangements with a further £1.0million from integrated working with children, families, adults and Health;
- £4.5m of temporary one off funding to enable phasing of proposals, which will be replaced with permanent savings in 2014/2015.

The Government has provided indicative funding levels for 2014/2015 which indicate a further saving requirement for 2014/2015 of £31.7m, with the three year savings requirement for 2013/2014 to 2015/2016 likely to be in the region of £98 million. However, the outlook remains uncertain as the Government is also planning to set out its spending plans for the next Spending Review period (2015/2016 to 2018/2019) during 2013 (SR13).

In addition to reducing funding available, the Government has also implemented significant changes to the way Local Government is funded with effect from 1st April 2013:

- The Business Rates Retention system replaces formula grant funding with half of Business Rates to be retained by Government and the remaining half retained locally;
- Implementation of the Localisation of Council Tax Support.

Both of these changes result in significant risk transfer to the Council from Central Government as any non-collection of income must now be borne by the Council. Enhanced monitoring arrangements have been put in place to recognise this additional risk.

The Council continues to plan for these further significant reductions and risks. As set out in the Medium Term Financial Strategy, the achievement of savings will continue by reshaping and refocusing front line services and targeting resources to services to ensure they are responsive to local needs while protecting core services and those most vulnerable. In addition during 2012/2013 the council has refreshed its improvement framework to focus on the community leadership role of the council. This includes an increased focus on demand management, recognising customer services as the gateway to demand for, and supply of, services. The approach will continue to identify the most effective and efficient models for service provision with strategic services and fixed assets scaled to the future needs of the Council and its communities.

The Council's Improvement Agenda

The Council has continued to address the significant Government funding reductions through a programme of improvement activity across the Council. Each element that makes up the Council's approach to improvement is described as follows:

- The **Transformation Programme** remains the Council's key method to reduce cost and drive improved outcomes. The programme delivered £24.3m savings in 2012/2013 via:

  - Reviews within Strategic and Shared Services have delivered savings of £6.6m in 2012/2013. These savings have being delivered via a review of the Council's building costs, as part of the Smarter Working project and further re-engineering of the following unified services: Strategy, Policy and Performance; Strategic Asset Management; Assurance, Risk and Procurement; Legal and Democratic; Scrutiny and Area Arrangements; Transformation, Programmes and Projects, Strategic Finance; Strategic HR; Communications; Transactional Services (HR, Finance and Administration) and ICT.

  - A range of service review activity has generated £17.7m of savings in 2012/2013 including:
    - Customer services, End to End Redesign – a programme of end to end service redesigns were implemented that looked at customer journeys and removed any non value adding activities from processes;
    - Culture, Sport and Leisure review – a review of the provision of Leisure Facilities, the implementation of an integrated approach to delivering the Resorts and Tourism service and a review of the participation within Tyne and Wear Archives and Museums services;
    - Review of Transport and Fleet Management – this review established an integrated transport unit and management information system and commissioned activities through the most appropriate providers;
    - Facilities Management review – savings were delivered via the remodelling of building maintenance, building cleaning, grounds maintenance and catering functions;
    - Review of Children's Services Structures – focused on early intervention, prevention and locality based integrated service delivery.

  - A range of Workforce Planning measures over the last 4 years has enabled the size of the workforce to be reduced in a planned and managed way. Measures including restrictions on external recruitment, the SWITCH programme of internal redeployments, early retirements and the addition of a voluntary severance exercise in 2012 has meant the workforce reduced by another 13% (884 employees) during 2012/2013. The severance scheme demonstrated strong value for money as it was implemented early in the financial year, enabled the full mitigation of the projected overspending in 2012/2013, early release of planned savings for 2013/2014 and significant annual ongoing savings to be secured. The payback period was within one year and costs of the scheme were contained within 2012/2013.

  The Business Transformation Programme was refocused during 2012/2013 to incorporate the following strands:

  - Demand Management – ensuring that preventative interventions are made early on in the customer journey by both the Council and partners to negate the need for more costly interventions later, and thus delivering improved outcomes for the customer and the community;
  - Citizen Engagement – gaining insight and a deeper understanding into our customers' and community's needs, wants, and aspirations coupled with evidence backed research and learning to make the best possible service commissioning decisions;
  - New and Alternative Service Delivery Models (NSDM/ASDM) – delivering a broad range of innovative service delivery models that deliver improved outcomes at lower cost whilst retaining a public sector ethos and the Council's core values.

- A central part of the Council's transformation agenda, the **Community Leadership Programme** (CLP) aims to strengthen the position of Councillors, residents and customers at the centre of decision making in the Council and the city. 2012/2013 has seen:
  - Complete review and restructuring of the Council's Executive and Committee arrangements, featuring the introduction of Place and People Boards in each Area;
  - Record levels (96%) of Member Satisfaction with the advice and support provided by Officers;
  - Further devolution over decision-making and influencing of key front line services such as Youth Contracts and Highways Maintenance to Areas;
  - The House of Commons Communities and Local Government Select Committee holding a session in the Civic Centre during its reviews of Councillor's roles in their communities.

- The **Economic Regeneration Programme** (ERP) focuses on the Council's contribution to the delivery of those programmes and projects identified and prioritised as being important to achieving the aims of the Sunderland Economic Master Plan. The main objective is to improve Sunderland's economic prosperity. This will be achieved by increasing the city's attractiveness to investors; creating well paid sustainable jobs; developing a skilled workforce; attracting and retaining young people; developing the city in to a national hub of the low carbon economy and; making Sunderland attractive, inspirational, entrepreneurial and inclusive. The Economic Regeneration Programme is directed by an Economic Leadership Board comprising representatives of the private sector, public sector and social enterprises. The Programme oversees the development, resourcing and delivery of those projects identified to deliver the benefits and outcomes of the Economic Master Plan and is overseen, within the Council, by an Economic Regeneration Programme Board. Key successes for 2012/2013 are:
  - Achieving Enterprise Zone status for a number of sites within Sunderland that form part of the North Eastern Local Enterprise Partnership Enterprise Zone. During the year Vantec opened its 421,000sq ft site at Turbine Business Park. The investment was the first to take place on any of the UK's new Enterprise Zones and will employ 230 staff.
  - On 18 February 2013, Deputy Prime Minister Nick Clegg MP announced that Sunderland's application to be included in the latest round of City Deals was successful. The deals will be reached between Government and cities so that local areas can bid for new powers that will enable them to grow.
  - Shortlisting three bidders to become the Council's Strategic Investment Partner for a Local Asset Backed Vehicle which will accelerate and deliver physical and economic regeneration of the City
  - Establishment of a £110m capital programme within the Council's budget to bring forward other major developments during 2013/2014

Newcastle International Airport Ltd

There are two issues relating to Newcastle International Airport Ltd, in which the Council has a 9.62% stake, that has impacted upon the 2012/2013 accounts of the Council:

- **Refinancing of the Company's Debt**

  The airport undertook a refinancing of their existing debt portfolio in November 2012 in advance of the current agreements reaching their term in December 2013 in order to achieve a more cost effective outcome. The overall level of debt secured from commercial banks to refinance the airport however was lower than previously obtained, as a consequence of the prevailing difficult economic and financial climate. This position represented an opportunity for the local authority shareholders to inject additional shareholder funds into the Airport to support the refinancing on a more commercial funding basis.

  Council approval was received to participate in the refinancing of the Airport after a full and independent due diligence exercise was carried out into the Airport's finances and performance. The agreed option (that represented best value to the local authority shareholders) was the issue of 20 year Long Term Loan Notes to the Airport, which would be financed either from the temporary use of internal resources or through prudential borrowing which had been provided for within headroom included in the approved Treasury Management Strategy/Prudential Indicators for 2012/2013 in March 2012, in order to maximise the financial position for the Council.

The use of internal resources has been reflected in the accounts and it is envisaged that income receivable over the course of the 20 year financing period will more than cover the Council for the funds of almost £14.6m utilised in this transaction, (on a worst case scenario basis), and that the transaction is expected to be at least revenue neutral over the term of the loan notes provided.

- **Airport Shares Revaluation**

The valuation of the Council's shareholding in the Airport is reviewed each year to consider whether any events have occurred which would materially change the valuation included within the accounts. The last full independent valuation of the shares was carried out in May 2010 which valued the shareholding at £0.795m based upon the discounted cash flow method, as no open market share value was available for the shareholding.

On 16th November 2012, Copenhagen Airports A/S sold its 49% shareholding to AMP Capital Investors. As a result, the valuation of the shareholding can now be based upon the open market value achieved in this sale. At the same time an internal sale of shares also took place within the Local Authority (LA7) group. The Council as a result acquired an additional 42 shares and now holds an 18.87% interest in Newcastle Airport Local Authority Holding Company Limited, valued at £16.400m using the open market value of the shares, which is equivalent to an overall stake in the Airport of 9.62%.

The value of the shares in the accounts has thus been valued at the sale price and whilst significantly higher than the previous valuation clearly reflects the value that the company can acquire in a market situation**.**

Economic downturn

The economic downturn has continued into 2012/2013 and the Council has again responded throughout the year by taking actions to ensure that resources have been directed to those service areas most affected reflecting the position taken at the time the 2012/2013 budget was set. The following factors that were taken into account included:

- The very low interest rates continued to have an impact on the financial return on the Council's deposits, leading to reduced levels of income available to support the Council's Revenue Budget.

- The reduction in the ability of the Council to generate capital receipts from the sale of surplus assets continues to restrict the resources available for the Council's capital programme and this position is now expected to continue into 2013/2014. However alternative means of funding priority investment continue to be rigorously pursued with positive results in a number of areas.

- The impact of the economic downturn continues to affect the level of income from fees and charges for Council services.

Capital Expenditure and Income

Capital Expenditure for the year totalled £53.806m. Expenditure on non-current assets for 2012/2013 was £26.615m (Note 12, page 63), whilst expenditure on intangible assets was £0.231m (Note 15, page 67). The remainder of £26.960m represents grants, advances to other organisations for capital purposes, de-minimis expenditure transferred to revenue, expenditure treated as capital following receipt of a capitalisation direction from Government and expenditure on property not owned by the Council.

Foreword by the Executive Director of Commercial and Corporate Services (Continued)

The above total capital expenditure was financed by Borrowing of £30.609m, Capital Receipts of £0.013m, Government Grants of £16.580m, Other Grants and Contributions of £0.370m, Revenue Contributions of £1.349m and Use of Reserves of £4.885m.

Major Acquisitions, Capital Works and Disposals during 2012/2013

The Council spent £3.610m on the purchase of land and property during 2012/2013 and this was primarily in respect of strategic land acquisitions that will be used to regenerate the city centre and surrounding areas.

The Council is involved in a number of major projects, known as capital works. The main schemes are listed below for information, and show the amounts of expenditure incurred during 2012/2013, the total estimated gross cost of each scheme, and the status of the project at the end of this financial year.

Scheme / Project	Expenditure during 2012/2013 £'000	Total Currently Estimated Gross Cost £'000	Physically Completed / In Progress as at 31 March 2013
St Mary's Boulevard & Magistrates Square	1,580	11,864	In Progress
Maplewood School	1,545	5,386	Complete
Sunderland Strategic Transport Corridor	1,232	117,642	In Progress
Sunderland Software Centre	1,146	8,703	Complete
Corporate Computing Model	1,038	5,797	Complete

There were two major asset disposals (over £0.500m) made during the year. These were in respect of the sale of an industrial unit at Rainton Bridge (£1.309m) to an existing tenant and land at Rainton Bridge on which a new Fire Station will be constructed (£0.670m). In addition eleven schools become academies as disclosed in Note 5 (page 53). In these cases, the assets transferred from the Council to the academies without a capital receipt in accordance with government regulations.

Council's Current Borrowing and Capital Borrowing Position

The Capital Programme report incorporating Prudential Indicators and the Treasury Management Policy and Strategy submitted to Council on 7th March 2012 detailed the 2012/2013 borrowing limits for the Council.

The specific borrowing limits set relate to two of the Prudential Indicators, which are required under the Prudential Code, which was introduced on 1st April 2004. The Council is required to set borrowing limits for the following three financial years. The limits for 2012/2013 were as follows:

- Authorised Limit for External Debt for 2012/2013 of £377.324m.
- Operational Boundary for External Debt for 2012/2013 of £339.011m.

As part of the Council's Treasury Management operation, these two Prudential Indicators are monitored on a daily basis. The Authorised Limit and Operational Boundary for the Council were not exceeded during 2012/2013. The highest level of borrowing incurred by the Council in respect of the above limits, during 2012/2013, was £217.581m (this figure excludes other long-term liabilities such as PFI and Finance leases which already include borrowing instruments).

Foreword by the Executive Director of Commercial and Corporate Services (Continued)

Treasury Management

In line with best accounting practice, the Council must follow the Treasury Management Policy and Strategy agreed by full council each year. The Policy for 2012/2013 is included in detail within the Accounting policies (Note 1, page 35) for information.

Interest rates in 2012/2013 remained at historic low levels as global and national economic growth remained low and economic pressures continued within the Eurozone. The sovereign debt concerns and volatility of a number of Eurozone countries meant that the United Kingdom continued to be viewed as a safer haven for investments and this has kept gilt yields low, despite the UK sovereign rating being downgraded by Moody's credit rating agency from AAA to AA+ on 22nd February 2013.

The Council's economic advisers believe economic recovery will remain weak by historical standards, primarily due to continued difficulties in the Eurozone, the UK's largest trading partner, and elsewhere. The cut in the Bank Rate to 0.5% in March 2009 has failed to stimulate a consistent recovery in economic growth and the Funding for Lending Scheme is viewed as having little impact on business lending. Uncertainty is forecast to continue into the medium term and it is anticipated that the Bank Base rate will not start to rise until March 2015 at the earliest. Forecasts for PWLB interest rate levels in the medium-term have risen as a result of the continued recovery in confidence in equity markets. A rise in equity prices has resulted in a sell off in bonds and a reduction in gilt yields as investors' appetite to take risk has increased. However, bond yields remain extremely unpredictable and there are still exceptional levels of volatility which are highly correlated to the sovereign debt crisis and to political developments in the Eurozone. This uncertainty is expected to continue into the medium term and implications for the Council will continue to be closely monitored.

The Council has had to operate its Treasury Management function within these very challenging and uncertain times by carefully managing the Council's cash resources and the Council continues to operate a prudent and cautious approach to Treasury Management. The Council follows professional standards and best practice in this specialist area and continues to develop its Treasury Management expertise and knowledge in order to safeguard the Council resources and thereby reducing the risks that inevitably exist in this complex area.

The performance of the Council's Treasury Management function continues to contribute significant financial savings that are used to provide funding for future years' capital programmes and to help support the Council's revenue budget. No new PWLB borrowing was taken out in 2012/2013 and the Council instead used internal funds to finance its capital borrowing requirement. This policy has been followed as there is a short-term revenue cost in taking out new borrowing and PWLB rates are anticipated to remain low over the short-term.

The average rate of the Council's borrowing at 3.49% is in the top quartile when benchmarked against other authorities as is the 1.91% rate of return achieved on investments. The high rate of return achieved on investments in 2012/2013 represents a very good achievement, especially when short-term investment rates continue to remain very low, and this helps to show how proactive Treasury Management can have significant positive effects on the Council's resources.

Accounting for Pensions

The accounts continue to be fully compliant with International Accounting Standard 19 (IAS19). Although IAS19 is regarded as a complex accounting standard it is based on a simple principle, namely that an organisation should account for retirement benefits when it is committed to giving them, even if the actual payment of those benefits will be many years into the future. Inclusion of the pension fund assets and liabilities in the accounts does not mean that the legal title or obligation has passed from the Pension Fund Administrator to the employer. Instead it represents the employer's commitment to increase contributions to make up any shortfall in attributable net assets, or its ability to benefit (through reduced contributions) from a surplus in the Pension Fund.

The last full actuarial valuation of the Pension Fund was carried out as at 31st March 2010 and has been updated by independent actuaries to take into account the requirements of IAS19 in order to assess liabilities as at 31st March 2013. The Council as such continues to comply fully with this Standard and the Accounting

Policy (Note 1, page 35) and the Notes to the Core Financial Statements provide details of the necessary disclosures required.

The net overall impact of IAS19 accounting entries is neutral in the accounts, and, in reality, as the Council is making the necessary pension deficiency payments to address any assessed shortfall in the pension fund by the Actuary over time, then the Balance Sheet net worth is in effect reporting future years' deficits, which are being addressed.

The financial health of the Council is consequently being affected by the accounting requirements in respect of IAS19. However, the Pension Fund Reserve Deficit reflected in Note 24d (page 76), as assessed by the Actuary, as at 31st March 2013, is being addressed by the Council in line with government regulations whereby a period of 22 years to correct the deficit position has been agreed. The Council can meet the assessed deficit with planned and agreed future years' contributions based on independent actuarial advice.

Cost of Pensions

The cost of pensions to the Council continues to increase year on year and remains a major item of expenditure the Council has to meet each year. Through the Hutton Review pensions have been reviewed and core scheme arrangements agreed which will support the reduction/stabilisation of the employer's costs of funding pensions for public sector workers and to make them more affordable to the Council Tax payer. These changes are due to be implemented on 1 April 2014.

Equal Pay claims

The Council has a number of outstanding equal pay claims from staff who are seeking financial redress in respect of periods when unequal pay is alleged to have been applied by the Council. The majority of claims have been stayed by the Employment Tribunal to allow settlement discussions to take place. A significant number of the claims have been settled, with efforts ongoing to settle the remainder of the stayed cases.

Insurance Provision

The Council has an excellent track record in managing the many risks it faces and also continues to win national recognition for the achievements of its successful risk management arrangements. The impact of this success means that the Council continues to benefit from reduced insurance premia by successfully managing some risks itself.

As part of the prudent approach to the management of the financial affairs of the Council, some of these savings have been prudently earmarked against future known and unknown claims following an actuarial review, and are held in an Insurance Reserve.

South Tyne and Wear Waste Management Partnership PFI Scheme

The South Tyne and Wear Waste Management Partnership was established to enable the three partner authorities (Gateshead, Sunderland and South Tyneside Councils) to jointly procure a service for the treatment and disposal of residual municipal waste.

In April 2011, the Partnership, led by Gateshead Council, signed a £727m PFI contract with a consortium led by SITA UK. Sunderland is expected to utilise approximately 30% of the total capacity of the facility each year, resulting in estimated unitary charge payments of £283m over the duration of the contract including indexation.

The contract is focussed on the development of an energy-from-waste facility on Teesside which will treat approximately 190,000 tonnes of residual waste generated by the three councils each year until the expiry date in March 2039.

Foreword by the Executive Director of Commercial and Corporate Services (Continued)

The energy-from-waste facility is currently under construction and is expected to be operational in April 2014.

Euro

The adaptation of operational and information systems to accommodate the Euro would become a priority for local authorities at some stage in the future if a decision were made by the UK Government to join the Euro. The Council continues to monitor the Euro's impact on its business affairs. The council's Financial Management System is Euro compliant.

North East Local Enterprise Partnership (NELEP)

The North East Local Enterprise Partnership (NELEP) is a strategic partnership committed to promoting and developing economic growth in the North East. NELEP covers the 7 Local Authority areas of Sunderland, Durham, Gateshead, Newcastle, North Tyneside, Northumberland and South Tyneside. The NELEP Board comprises, nine private sector representatives including the Chair, seven local authority representatives, one higher education representative and one representative of further education colleges.

The Council is the Designated Accountable Body for the NELEP and as such is required to account for revenue transactions within the Comprehensive Income and Expenditure Statement under agency arrangements. There are no assets or liabilities belonging to NELEP reflected on the Council's Balance Sheet.

Malcolm Page CPFA MBA
Executive Director of Commercial and Corporate Services
27th September 2013

Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council is required:

1. To make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Executive Director of Commercial and Corporate Services.

2. To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

The Executive Director of Commercial and Corporate Services' Responsibilities

The Executive Director of Commercial and Corporate Services is responsible for the preparation of the Council's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/2013 ("the Code"), is required to present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31st March 2013.

Authorised for Issue Date

The unaudited accounts were certified on 28th June 2013 and the audited accounts are now authorised for issue on 27th September 2013.

Certificate of the Executive Director of Commercial and Corporate Services

I certify that in preparing this statement of accounts I have:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code, except where disclosed.

I have also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Malcolm Page CPFA MBA
Executive Director of Commercial and Corporate Services

27th September 2013

Sunderland City Council

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SUNDERLAND CITY COUNCIL

Opinion on the Council's financial statements

We have audited the financial statements of Sunderland City Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Sunderland City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Executive Director of Commercial and Corporate Services and the Auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Executive Director of Commercial and Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Commercial and Corporate Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Sunderland City Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Council and the Auditor

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission on 1 November 2012, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission on 1 November 2012, we are satisfied that, in all significant respects, Sunderland City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

We certify that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Steve Nicklin CPFA

For and on behalf of Mazars LLP, Appointed Auditors
The Rivergreen Centre
Aykley Heads
Durham, DH1 5TS

30 September 2013

Annual Governance Statement

1. SCOPE OF RESPONSIBILITY

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is used economically, efficiently and effectively and is safeguarded properly accounted for. We also have a duty to continually review and improve the way things are done.

We have put in place a local Code of Corporate Governance and a framework intended to make sure we do the right things in the right way for the right people. The Code is on the Council's website [here] or can be obtained from the Executive Director of Commercial and Corporate Services. This Statement explains how the Council has complied with its Code in 2012/13.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, culture and values that direct and control our activities and through which we account to, engage with, and lead the community. The framework enables us to monitor the achievement of strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The governance framework has been in place at the Council for the year ended 31st March 2013 and up to the date of approval of the Statement of Accounts.

3. THE GOVERNANCE FRAMEWORK

3.1 There is a clear vision of our purpose and intended outcomes for citizens and service users that is clearly communicated, both within and outside the organisation. The Sunderland Strategy 2008-2025 provides the framework for members of the Sunderland Partnership, organisations, groups of people and individuals, to work together to improve the quality of life in Sunderland by 2025. It sets out a Vision for the city and its people and how everyone will work together to achieve that Vision:

"Creating a better future for everyone in Sunderland - Sunderland will be a welcoming, internationally recognised city where people have the opportunity to fulfil their aspirations for a healthy, safe and prosperous future."

3.2 The Council has developed a set of guiding principles to help decision making and agree priorities. These are:

- Elected members are community leaders at the core of decision making
- Our communities, residents and businesses are at the centre of everything we do
- We encourage, respect and value innovation and enterprise
- We demand high performance, personal responsibility and personal accountability
- We value people's individual contributions to our collective goals
- We are ambitious for the city and for ourselves; we view all change as an opportunity; we celebrate and build on our past without being confined by it.

3.3 To translate these principles into clear outcomes that will deliver its vision for the city the Council has set three strategic priorities:

People – raising aspirations, creating confidence and promoting opportunity
Place – leading the investment in an attractive and inclusive city and its communities
Economy – creating the conditions in which businesses can establish and thrive.

3.4 The Corporate Plan sets out our priorities and the significant actions we will take. These, in turn, shape the activity of our various services and how we will focus our resources. We are clear where we need to get to and what we need to do to get there.

3.5 Arrangements are in place to review our vision and its implications for the authority's governance arrangements. The annual strategic planning process, engagement and participation with residents, needs analysis and demographic information ensure the authority's vision remains relevant and meets the needs of local communities. There are annual reviews of the local Code of Corporate Governance to ensure that it is up to date and effective. The reviews are carried out by the Council's Corporate Assurance Group using assurances and information gathered through the Integrated Assurance Framework (IAF) which was put in place in 2012/13. The IAF brings together assurances from all available internal and external sources.

3.6 Arrangements are in place to measure the quality of our services, to ensure they are delivered in line with our objectives and for ensuring that they provide value for money. There are clear and effective performance management arrangements including staff appraisals for Directors and key staff, which address financial responsibilities. Services are delivered by suitably qualified / trained / experienced staff and all posts have detailed job profiles / descriptions and person specifications.

3.7 The roles and responsibilities of Council members and employees are clearly documented, with clear delegation arrangements and protocols for effective communication. The Council's Constitution sets out how the Council operates. It incorporates a clear delegation scheme, indicates responsibilities for functions and sets out how decisions are made.

3.8 The Constitution includes Rules of Procedure and a scheme of delegation which clearly define how decisions are taken and we have various Codes and Protocols that set out standards of behaviour for members and staff. Directorates have established delegation schemes, although these require regular updating to reflect on-going organisational changes.

3.9 During the year a system of scrutiny was in place allowing the scrutiny function to:

- review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions;
- make reports and/or recommendations to the full Council and/or the executive and/or any joint or area committee in connection with the discharge of any functions;
- consider any matter affecting the area or its inhabitants; and
- exercise the right to call-in, for reconsideration, decisions made but not yet implemented by the executive and/or area committees; and
- consider Local Petitions and Councillor Calls for Action for matters within their terms of reference.

3.10 A range of financial and HR policies and procedures are in place, as well as robust and well embedded risk management processes. Appropriate project management disciplines are utilised and Business Continuity Plans are in place, which are subject to on-going review. There are comprehensive budgeting systems in place and a robust system of budgetary control, including formal quarterly financial reports, which indicate financial performance against forecasts. There are clearly defined capital expenditure guidelines in place and procedures are in place to ensure that the Dedicated Schools Grant is properly allocated to and used by schools in line with the terms of grant given by the Secretary of State under section 16 of the Education Act 2002.

3.11 The authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Executive Director of Commercial and Corporate Services is the designated Chief Finance Officer and fulfils this role through the following:

- Attendance at meetings of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest;
- Involvement in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered;
- Alignment of medium term business and financial planning processes;
- Leading the promotion and delivery of good financial management by the whole organisation so that public money is safeguarded and used appropriately, economically, efficiently and effectively;
- Ensuring that the finance function is resourced to be fit for purpose.

3.12 The Council has an Audit and Governance Committee which, as well as approving the Authority's Statement of Accounts, undertakes an assurance and advisory role to:

- consider the effectiveness of the authority's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;

- be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
- receive and consider (but not direct) internal audit's strategy, plan and monitor performance;
- receive and consider the external audit plan;
- review a summary of internal audits, the main issues arising, and seek assurance that action has been taken where necessary;
- receive and consider the annual report of internal audit;
- consider the reports of external audit and inspection agencies, including the Annual Audit Letter;
- ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted;
- review the external auditor's opinions and reports to members, and monitor management action in response to the issues raised by external audit;
- review the adequacy of and compliance with, the Councils Treasury Management Policy; and
- make recommendations to Cabinet or Council as appropriate.

3.13 We have arrangements to ensure compliance with relevant laws, regulations, internal policies and procedures, and that expenditure is lawful. The Head of Law and Governance is the Council's designated Monitoring Officer and a protocol is in place with all Chief Officers, to safeguard the legality of all Council activities. All Cabinet Reports are considered for legal issues before submission to members.

3.14 The Council's internal audit service has been subject to an independent review of its effectiveness which concluded that the service operates in accordance with professional standards.

3.15 Arrangements for whistle-blowing and for receiving and investigating complaints from the public are well publicised. We are committed to maintaining these arrangements to ensure that, where any individual has concerns regarding the conduct of any aspect of the Council's business, they can easily report their concerns. Monitoring records held by the Head of Law and Governance reveal that the whistle blowing arrangements are being used by both staff and the public, and that the Council is responding appropriately. The whistle blowing arrangements have assisted with the maintenance of a strong regime of internal control.

3.16 We have arrangements to identify the development needs of members and senior officers in relation to their strategic roles. The Community Leadership Programme has continued to support elected Members to fulfil their community leadership role, including the introduction of Account Managers for all Members. The Council's HR Strategy identifies managing the performance of all of employees is key to ensuring that the organisation meets the needs of the community. This includes assessing ability against requirements of the role, annual appraisal focusing on strengths and highlighting areas of weakness, job related training, and on-going evaluation of the extent to which employees understand and support the values of the Council.

3.17 Clear channels of communication have been established with all sections of the community to promote accountability and encourage open consultation. We are committed to listening to, and acting upon, the views of the local community and carry out consultation in order to make sure that services meet the needs of local people. Community Spirit is Sunderland's residents' panel, currently made up of around 1,500 residents from all parts of the city.

3.18 Governance arrangements with respect to partnerships and other group working incorporate good practice as identified by the Audit Commission's report on the governance of partnerships, and are reflected in the authority's overall governance arrangements. The Council has published a Code of Practice for Partnerships which includes a template for Partnership Agreements and a range of checklists to ensure key risk areas are considered and addressed. The Code is designed to provide a corporate framework for all staff involved in considering new partnership working, and to assist Members and employees to review existing arrangements. A Register of Partnerships is maintained. The significance of partnerships is identified using an assessment scorecard recommended by CIPFA.

4. REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness is carried out over the course of the year through the Integrated Assurance Framework. The review is informed by the Corporate Assurance Map which summarises assurances gathered from all available sources and in particular:

- The views of Members through participation in a survey covering governance issues and through the activity of the Scrutiny and Standards Committees.

- Assurances from Heads of Service who have carried out self-assessments relating to their areas of responsibility.
- Assurances from Chief Officers who have provided Controls Assurance Statements relating to their area of responsibility, having considered the detailed self-assessments from their Heads of Service.
- Assurances from senior officers responsible for relevant specialist areas.
- Internal audit planning processes which include consultation with all Chief Officers, and audit activity as detailed in the Internal Audit Annual Report. The external auditor has conducted a review of the effectiveness of Internal Audit Services and concluded that there are robust arrangements in place to comply with the standards of the 2006 CIPFA Code of Practice for Internal Audit.
- The Audit Commission's Annual Audit Letter for 2011/12 provides an unqualified opinion on the financial statements. The report confirms that the Council has proper arrangements in place to secure financial resilience, and for challenging how it secures economy, efficiency and effectiveness.
- An Ofsted inspection of the Adoption Service took place in 2012/13 which gave a judgement for overall effectiveness of Good. Inspections also took place in Children's Homes and Children's Centres which gave judgements of Adequate or Good. Findings of external inspectorates are used to support continuous service improvement.

The Executive Director of Commercial and Corporate Services (the Chief Financial Officer) has directed, co-ordinated and overseen the review and its findings have been reported to the Executive Management Team and Cabinet for their consideration and approval of the Annual Governance Statement.

The findings of the review have been reported to the Audit and Governance Committee. Under their Terms of Reference the Committee have satisfied themselves that the Annual Governance Statement properly reflects the risk environment and any actions required to improve it.

The Leader of the Council, the Chief Executive and the Executive Director of Commercial and Corporate Services have overseen the review and signed the Annual Governance Statement.

Cabinet and the Audit and Governance Committee have advised us of the findings of the review of the effectiveness of the governance framework and, whilst an improvement plan has been agreed, no significant issues arose from the review of the arrangements that were in place in 2012/13.

We propose over the coming year to take steps to implement the improvement plan to further enhance the Council's governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in the review and we will monitor their implementation and operation as part of the next annual review.

Paul Watson Leader of the Council	Dave Smith Chief Executive	Malcolm Page Executive Director of Commercial and Corporate Services

Dated: 27th September 2013

Financial Statements

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and ‘unusable reserves’. The (Surplus) or Deficit on the Provision of Service line shows the true economic cost of providing the Council's services, more detail of which is shown in the Comprehensive Income and Expenditure Statement. These are different to the statutory amounts required to be charged to the General Fund Balance. The Net (Increase) / Decrease before Transfers to / (from) earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves are undertaken by the Council. The tables below show the details for both 2011/2012 and 2012/2013 as required by the Code of Accounting Practice.

Financial Statements (continued)

Movement in Reserves Statement for 2012/2013 (including 2011/2012 comparative information)

	Notes	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	**Total Usable Reserves £'000**	Unusable Reserves £'000	**Total Authority Reserves £'000**
Balance at 31 March 2011 carried forward		(20,509)	(140,470)	(5,611)	(1,577)	**(168,167)**	(529,002)	**(697,169)**
Movement in reserves during 2011/2012								
Deficit on provision of services		64,003	0	0	0	**64,003**	0	**64,003**
Other Comprehensive Income and Expenditure		0	0	0	0	**0**	135,094	**135,094**
Total Comprehensive Income and Expenditure		**64,003**	**0**	**0**	**0**	**64,003**	**135,094**	**199,097**
Adjustments between accounting basis & funding basis under regulations		(71,473)	0	119	(4,277)	**(75,631)**	75,631	**0**
Net (Increase) / Decrease before transfers to Earmarked Reserves		(7,470)	0	119	(4,277)	**(11,628)**	210,725	**199,097**
Transfers to / (from) Earmarked Reserves		9,769	(9,769)	0	0	**0**	0	**0**
(Increase) / Decrease in 2011/2012		2,299	(9,769)	119	(4,277)	**(11,628)**	210,725	**199,097**
Balance at 31 March 2012		**(18,210)**	**(150,239)**	**(5,492)**	**(5,854)**	**(179,795)**	**(318,277)**	**(498,072)**
Movement in reserves during 2012/2013								
Deficit on provision of services		162,300	0	0	0	**162,300**	0	**162,300**
Other Comprehensive Income and Expenditure		0	0	0	0	**0**	(5,540)	**(5,540)**
Total Comprehensive Income and Expenditure		**162,300**	**0**	**0**	**0**	**162,300**	**(5,540)**	**156,760**
Adjustments between accounting basis & funding basis under regulations	7	(142,950)	0	(3,155)	(1,652)	**(147,757)**	147,757	**0**
Net (Increase) / Decrease before transfers to Earmarked Reserves		19,350	0	(3,155)	(1,652)	**14,543**	142,217	**156,760**
Transfers to / (from) Earmarked Reserves	8	(18,074)	18,074			**0**		**0**
(Increase) / Decrease in 2012/2013		1,276	18,074	(3,155)	(1,652)	**14,543**	142,217	**156,760**
Balance at 31 March 2013		**(16,934)**	**(132,165)**	**(8,647)**	**(7,506)**	**(165,252)**	**(176,060)**	**(341,312)**

Comprehensive Income and Expenditure Statement

This statement shows the accounting costs in the year of providing services in accordance with generally accepted accounting practice, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Financial Statements (continued)

Comprehensive Income and Expenditure Statement for 2012/2013 (including 2011/2012 comparative information)

2011/2012					2012/2013		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Notes	**Gross Expenditure £'000**	**Gross Income £'000**	**Net Expenditure £'000**
39,421	32,362	7,059	Central services to the public		**35,309**	**29,759**	**5,550**
39,863	20,948	18,915	Culture and related services		**33,017**	**7,801**	**25,216**
30,440	4,687	25,753	Environment and regulatory services		**29,011**	**4,964**	**24,047**
30,311	11,856	18,455	Planning services		**32,867**	**9,996**	**22,871**
250,688	231,819	18,869	Education services		**235,060**	**203,212**	**31,848**
37,115	4,963	32,152	Children's Social Care		**36,045**	**4,624**	**31,421**
35,163	16,984	18,179	Highways and transport services		**29,767**	**10,336**	**19,431**
141,123	128,108	13,015	Other housing services		**136,991**	**131,118**	**5,873**
119,265	54,892	64,373	Adult social care		**124,332**	**55,604**	**68,728**
18,314	4,562	13,752	Corporate and democratic core		**19,329**	**8,617**	**10,712**
12,066	11,658	408	Non Distributed Costs		**7,632**	**2,554**	**5,078**
0	0	0	Exceptional item - Severance Costs		**10,014**	**0**	**10,014**
0	0	0	Exceptional item - Equal Pay Settlement/Provision		**41,319**	**0**	**41,319**
753,769	522,839	230,930	**Cost of Services**	28	**770,693**	**468,585**	**302,108**
70,309	0	70,309	Other operating expenditure	9	**114,553**	**0**	**114,553**
36,556	3,980	32,576	Financing and investment income and expenditure	10	**13,180**	**5,877**	**7,303**
0	269,812	(269,812)	Taxation and non-specific grant income	11	**0**	**261,664**	**(261,664)**
860,634	796,631	64,003	**(Surplus) or Deficit on Provision of Services**	28	**898,426**	**736,126**	**162,300**
		(18,856)	(Surplus) or deficit on the revaluation of Property, Plant and Equipment	12 and 24a			**(38,635)**
		0	(Surplus) or deficit on the revaluation of available for sale financial	24h			**(15,605)**
		153,950	Actuarial (gain) / loss on pension assets / liabilities	44			**48,700**
		135,094	**Other Comprehensive Income and Expenditure**				**(5,540)**
		199,097	**Total Comprehensive Income and Expenditure**				**156,760**

Balance Sheet

The Balance Sheet shows the value 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 reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudential level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31 Mar 12 £'000		Notes	**31 Mar 13 £'000**
1,073,995	Property, Plant and Equipment	12	**977,297**
11,357	Heritage Assets	13	**11,357**
63,551	Investment Property	14	**68,923**
2,368	Intangible Assets	15	**2,185**
817	Long Term Investments	16	**16,787**
27,968	Long Term Debtors	16	**40,889**
1,180,056	**Long Term Assets**		**1,117,438**
166,832	Short Term Investments	16	**147,135**
1,376	Inventories	17	**1,335**
28,988	Short Term Debtors	18	**30,490**
0	Assets Held for Sale	20	**975**
44,777	Cash and Cash Equivalents (In-hand & bank)	16	**41,990**
241,973	**Current Assets**		**221,925**
(12,080)	Cash and Cash Equivalents (overdrawn)	19	**(18,093)**
(36,707)	Short Term Borrowing	16	**(35,849)**
(42,822)	Short Term Creditors	21	**(38,949)**
(2,046)	Provisions	22	**(35,556)**
(8,301)	Grant Receipts in Advance - Capital	36	**(6,882)**
(101,956)	**Current Liabilities**		**(135,329)**
(183,432)	Long Term Borrowing	16	**(179,744)**
(628,736)	Other Long Term Liabilities	16/24d	**(677,227)**
(9,833)	Provisions	22	**(5,751)**
(822,001)	**Long Term Liabilities**		**(862,722)**
498,072	**Net Assets**		**341,312**
(179,795)	Usable Reserves	8 / 23	**(165,252)**
(318,277)	Unusable Reserves	24	**(176,060)**
(498,072)	**Total Reserves**		**(341,312)**

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute towards the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2011/2012 £'000		Notes	**2012/2013 £'000**
64,003	Net (surplus) or deficit on the provision of services		**162,300**
(133,015)	Adjust net (surplus) or deficit on the provision of services for non cash movement		**(187,289)**
12,789	Adjust for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities		**21,311**
(56,223)	Net cash flows from operating activities	25	**(3,678)**
32,422	Investing activities	26	**4,439**
12,348	Financing Activities	27	**8,039**
(11,453)	**Net (increase) or decrease in cash and cash equivalents**		**8,800**
21,244	Cash and cash equivalents at the beginning of the reporting period		**32,697**
32,697	**Cash and cash equivalents at the end of the reporting period**	19	**23,897**

Notes to the Accounts

Notes to the Accounts (continued)

Note 1 – Significant Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2012/2013 financial year and its position at the year end of 31 March 2013. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, and these Regulations require the Statement of Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/2013 and the Service Reporting Code of Practice 2012/2013, both based on International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.2 Accruals of Income & Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- A full year's charge is included in the accounts for those supplies and services used continuously and charged on a periodic basis (e.g. gas, electricity and water), but the period covered by the payments does not always coincide with the financial year.
- Residential Care fees administered through the Council's General Income Payments System (GIPS) are accounted for on a cash basis. This is a departure from the Code of Local Authority Accounting Practice, although the values of the transactions are not considered material to the Council's Accounts.

1.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

1.4 Exceptional Items

When items of income and expenditure are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

1.5 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period. The reason and impact of any necessary adjustments are explained in more detail in the accounts as required.

1.6 Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- Amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.7 Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is based on the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs, but this accounting treatment ensures that there is no actual impact on the Council's cash reserves.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

Employees of the Council are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE) and
- The Local Government Pensions Scheme, administered by South Tyneside Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme and as a result no liability for future payments of benefits is recognised in the Council's Balance Sheet. The Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Tyne and Wear Pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees;
- Liabilities are discounted to their value at current prices, using a discount rate of 6.6% based on the indicative rate of return on high quality corporate bonds;
- The assets of the Tyne and Wear Pension fund attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities at current bid price;
  - unquoted securities based on professional estimate;
  - unitised securities at current bid price;
  - property at market value;
- The change in the net pension liability is analysed into seven components:

(a) Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;

(b) Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;

(c) Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

(d) Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return - credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

(e) Gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;

(f) Actuarial gains and losses – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited (loss) or credited (gain) to the Pensions Reserve;

(g) contributions paid to the Tyne and Wear Pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as those applied to the Local Government Pension Scheme.

1.8 Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period– the Statement of Accounts is adjusted to reflect such events;
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

All events taking place after the date of authorisation for issue are not required to be reflected in the Statement of Accounts.

1.9 Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and these are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into four types:

Loans and Receivables
Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment

Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Soft Loans (loans below market rate)
A Soft Loan is a loan made to a third party at a preferential rate of interest, i.e. below market rate. In accordance with the Code of Practice on Local Authority Accounting, the difference between the interest payable to the Council by the recipient of the loan and the amount they would have paid if they had acquired a loan for the same amount on the open market is charged to the Income and Expenditure Account under the relevant net cost of service heading. This charge is then reversed out through the Movement in Reserves Statement to mitigate any effect on Council Tax.

Available-for-Sale Assets
Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council. Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price;
- Other instruments with fixed and determinable payments – discounted cash flow analysis;
- Equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Other Investments
Investments in companies and in marketable securities are shown in the Balance Sheet at cost. Provision for losses in value is made where appropriate in accordance with the Code of Practice on Local Authority Accounting. No such provisions have been considered necessary at this time.

1.10 Government Grants & Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments; and

- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

As the DWP no longer notifies authorities of individual separate amounts of housing and council tax benefits administration subsidy, all related income has been shown against the line for Central Services to the Public in the Comprehensive Income and Expenditure Account.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

1.11 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

The only category of intangible assets for the Council is software licences; the asset life used for licences is between 5 and 10 years depending on licence conditions.

1.12 Interests in Companies & Other Entities

The Code of Practice requires local authorities to produce group accounts to reflect significant activities provided to Council taxpayers by other organisations in which a Council has an interest. The Council has reviewed its partnership arrangements against the criteria for group accounts as set out in the Code and has concluded that there are no such material interests that require the preparation of group accounts.

1.13 Inventories

Inventories are included in the Balance Sheet at cost price, with the exception of inventories held by Building and Highways Maintenance Department within City Services and salt stock which is valued at latest price.

1.14 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rental income from investment property is accounted for within the Cost of Services in the Comprehensive Income and Expenditure Statement; this is a departure from the Code of Practice on Local Authority Accounting in the United Kingdom which prescribes that it is accounted for within the Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

Revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

1.15 Jointly Controlled Operations and Jointly Controlled Assets

Income, expenditure (other than direct payments from the Council to the entity), assets and liabilities of jointly controlled operations and assets are not recognised in the Council's financial statements because these transactions are not deemed materially significant. This is a departure from the Code of Practice on Local Authority Accounting in the United Kingdom which prescribes that the Comprehensive Income and Expenditure Statement is credited and debited with its share of income and expenditure from the jointly controlled operation and that its share of assets and liabilities is presented on the council's balance sheet.

1.16 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.
Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

(a) The Council as Lessee

Finance Leases
Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases
Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

(b) The Council as Lessor

Finance Leases
Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received); and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases
Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

1.17 Overheads & Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012/2013 (SeRCOP). The charging method varies according to the service provision, with the most appropriate basis being agreed with the customer on an annual basis, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Net Expenditure on Continuing Services.

1.18 Internal Interest

Interest is credited to the General Fund from the Consolidated Advances and Borrowing Pool based on cash flow and fund balances. The amounts are calculated using 7-day money market rates in accordance with guidance contained within the Code of Practice on Local Authority Accounting.

1.19 Delegated Budgets

As set out in the Local Management of Schools Scheme, schools may carry forward any under-spending on their budgets to the following financial year as provisions for specific future spending plans or as earmarked general balances. Similarly, the principle of delegated budgets was extended to all Council Directorates in a report approved by Council on 22nd July 1992, and revised and approved by Management Committee on 18th September 1996.

1.20 Property, Plant & Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Capital expenditure that does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense in the year when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price;
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction. Capital projects that are still in progress are classed as 'non current assets under construction' and are shown in the balance sheet under the relevant asset category. For material capital schemes that have been completed an assessment is undertaken by the Valuation Manager to determine any change the capital scheme has made to an asset's value.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historic cost;
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets have short useful lives, DRC is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. To ensure that this takes place a rolling programme of valuations has been put in place by the Valuation Manager. Assets are valued in accordance with the principles of the RICS (Royal Institution of Chartered Surveyors) Appraisals and Valuation Standards. The valuations are supervised by N. Wood, the Council's qualified (ARICS) Chartered Surveyor. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Voluntary Aided Church schools and Foundation schools where the asset is not owned by the Council are not included on the Council's Balance Sheet. Assets for schools that transfer to academy status are transferred on a long lease with peppercorn rental and the asset is in effect owned by the school and its asset value is not therefore included on the Council's balance sheet. Community School assets are included on the Council's Balance Sheet.

De-Minimis Levels

The use of a de-minimis level for capital expenditure means that in the above categories assets below the de-minimis level are charged to the revenue account, i.e. the asset is not included in the balance sheet unless it is part of an overall project costing more than the established de-minimis level.

For all capital expenditure the de-minimis level is £20,000.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).
Depreciation on all Property, Plant and Equipment assets has been calculated on a straight line basis by taking the net asset value divided by the future life expectancy. Depreciation is charged in the year following acquisition, with the exception of acquisition of buildings that are revalued at 31st March where depreciation is charged in the year the acquisition takes place.

The life expectancy for each asset category falls within the following ranges:

Asset Category	Years
Buildings	3 - 68
Infrastructure	5 - 40
Vehicles, plant and furniture	5 - 20

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. A de- minimis level for considering componentisation has been set at £1m. A standard list of components is used by the Council:

- Building structure;
- Mechanical and electrical

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

Disposals & Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. Immediately before the initial classification of an asset as held for sale the carrying amount of the asset is measured in accordance with the relevant section of the code. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.
The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

1.21 Private Finance Initiative (PFI) and Similar Contracts

PFI contracts are agreements to receive services where the responsibility for making available the non-current assets needed to provide the services passes to the PFI contractor.

Recognising assets and liabilities

Property used in a PFI and similar contracts shall be recognised as an asset or assets of the local council. A related liability shall also be recognised at the same time. The asset shall be recognised in accordance with the Code of Practice on Local Authority Accounting; this will be when the asset is made available for use unless the local council bears an element of the construction risk, which will not be the case where standard PFI contract terms are used. Where the Council bears the construction risk, it shall recognise an asset under construction prior to the asset being made available for use where it is probable that the expected future benefits attributable to the asset will flow to the Council. In accordance with the Code of Practice on Local Authority Accounting, separate assets shall be recognised in respect of land and buildings where appropriate. The related liability shall initially be measured at the value of the related asset, and subsequently shall be calculated using the same actuarial method used for finance leases under the Code of Practice on Local Authority Accounting.

Prepayments

PFI and similar contracts may be structured to require payments to be made (either as part of a unitary payment or a lump sum contribution) before the related property is recognised as an asset on the Balance Sheet. Such payments shall be recognised as prepayments. At the point that the infrastructure is recognised as an asset, the related liability shall also be recognised. The prepayments shall be applied to reduce the outstanding liability.

Depreciation, impairment and revaluation

Once recognised on the Balance Sheet, property under a PFI and similar contract is depreciated, impaired and re-valued in the same way as for any other non-current asset.

Minimum Revenue Provision (MRP) (England and Wales)

Assets acquired under a PFI and similar contract that are recognised on the Council's Balance Sheet are subject to MRP in the same way as assets acquired using other forms of borrowing. The amounts of MRP to be charged to the General Fund for the year shall be in accordance with the appropriate regulations and statutory guidance. Such amounts shall be transferred from the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Capital financing requirement

Where PFI contracts or similar arrangements come 'on-Balance Sheet' the Capital Financing Requirement will be adjusted to reflect this and the authorised limits and operational boundaries will be set accordingly.

1.22 Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.
When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

1.23 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

1.24 Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.25 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are maintained to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

1.26 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged to the Comprehensive Income and Expenditure Statement so that there is no impact on the level of council tax.

1.27 VAT

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue & Customs. VAT receivable is excluded from income.

1.28 Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

1.29 Treasury Management

The Local Government Act 2003 requires the Council to adopt a Treasury Management Policy Statement and to set out its Treasury Management Strategy comprising the Council's strategy for borrowing and the Council's policies for managing its investments, and giving priority to the security and liquidity of those investments. The Department of Communities and Local Government issued revised investment guidance which came into effect from 1st April 2010 and CIPFA updated its Treasury Management in the Public Services Code of Practice in November 2011. The CIPFA Code of Practice has been fully adopted by the Council. A major requirement of the Code relates to the need to have in place a Treasury Management Policy Statement (TMPS), which is approved by full Council in March of each year. The TMPS defines the policies and objectives of its treasury management activities;

a) Treasury Management activities are defined as:
The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

b) The successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks

c) Effective treasury management will provide support towards the achievement of the Council's business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Further information relating to the Council's Treasury management policy and strategy can be found on the Council's website at:

http://www.sunderland.gov.uk/committees/cmis5/Meetings/tabid/73/ctl/ViewMeetingPublic/mid/410/Meeting/7886/Committee/1578/Default.aspx

1.30 Carbon Reduction Commitment (CRC) Energy Efficiency Schemes

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme has completed its introductory phase and the second phase of the scheme will start in April 2013. The Council is required to purchase allowances retrospectively, on the basis of emissions (i.e. carbon dioxide produced as energy is used). As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised.

The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the cost of the Council's services and is apportioned to services on the basis of energy consumption.

1.31 Heritage Assets

The Council's accounting treatment relating to Heritage Assets fully complies with the Code of Practice. Further details can be found in Notes 48 and 49.

Notes to the Accounts (continued)

Note 2 – Accounting standards that have been issued but have not yet been adopted

IAS 19 Employee Benefits

The adoption of the 2011 amendments to IAS 19, Employee Benefits, by the Code will result in a change to the Council's accounting policy from 1st April 2013. The amendments require additional disclosures in the financial statements in order to provide an explanation of the Council's specific circumstances, explaining that there are new classes of components of defined benefit cost, re-measurements of the net defined benefit liability, and, where appropriate, new definitions or recognition criteria for service costs and termination benefit. The accounts will also assess the impact of these changes on both the Comprehensive Income and Expenditure Statement and the Balance Sheet.

If the revised IAS19 had been adopted for the accounting period ending 31st March 2013 then this would have increased the expense recognised for funded benefits from £40.1m to £59.22m. There would have been no effect on the Balance Sheet.

IAS 1 Presentation of Financial Statements

The adoption of the 2011 amendments to IAS 1, Presentation of Financial Statements, by the Code may result in a change to the Council's accounting policies from 1st April 2013 where the Council has gains or losses reclassifiable into the Surplus or Deficit on the Provision of Services as set out in the amendments. Where appropriate, the Council will be required to detail the Council's circumstances, explain the revised groupings within the Comprehensive Income and Expenditure Statement and include a statement to the effect that all changes are presentational and do not impact on the amounts reported in the Comprehensive Income and Expenditure Statement.

IAS 12 Income Taxes

Where the Council considers that the 2010 amendments to IAS 12, Income Taxes, would have a material impact on any group accounts produced, then it will be required to demonstrate the impact of the change on its financial statements. There will be no impact on the Council's financial statements.

IFRS 7 Financial Instruments: Disclosures

The adoption by the Code of IFRS 7, Financial Instruments: Disclosures, will require a change of accounting policy from 1st April 2013 and a discussion of the impact that application of the IFRS is expected to have on the financial statements. It is unlikely that there will be any effect on the Council's financial statements as a result of this adoption.

Note 3 – Critical Judgements in applying accounting policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- Retirement benefit obligations – the Council recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'. The calculations include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the rate of increase in salaries and life expectancy amongst others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation. The key assumptions made are set out in Note 44.

- Provisions – provisions are measured at the Executive Director of Commercial and Corporate Services best estimate of the expenditure required to settle the obligation at the Balance Sheet date, and are discounted to present value where the effect is material.
- Impairment of property, plant and equipment and computer software – property, plant and equipment and computer software are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations prepared on the basis of management's assumptions and estimates.
- Depreciation of property, plant and equipment and amortisation of computer software – depreciation and amortisation is provided so as to write down the assets to their residual values over their estimated useful lives as set out in the accounting policies. The selection of these residual values and estimated lives requires the exercise of management judgement.
- Valuation Newcastle Airport – the value of the Council's investment in Newcastle Airport is based on the open market value of shares at 16th November 2012.

Note 4 – Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31st March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings and their components would increase by £3.028m for every year that useful lives had to be reduced.*
Provisions	The Council has provisions of £41.307m, £4.928m of this relates to Insurance.	An increase over the forthcoming year of 10% in either the total number of claims or the estimated average settlement would each have the effect of adding £0.493m to the provision needed.*
Arrears	At 31 March 2013, the Council had a balance of debtors of £30.490m. A review of significant balances suggested that an impairment of doubtful debts of 18.63% (£5.681m) was appropriate. However, significant changes to the current economic climate could affect the adequacy of this provision.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £5.681m to be set aside as an allowance.*

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension liability for funded LGPS benefits of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumptions would result in a decrease in the pension liability of £134.38m. However, the assumptions interact in complex ways. During 2012/2013, the Council's actuaries advised that the net pension liability for funded LGPS benefits had decreased by £1.54m as a result of estimates being corrected as a result of experience and increased by £87.24m attributable to updating of the assumptions.

* However, the above risks are mitigated as the Council fully assesses the likelihood of any variations during the budget process and includes a contingency provision as necessary. Throughout the year budget monitoring is carried out to ensure the actual position is in line with the budgeted provision and appropriate actions are taken as necessary.

Note 5 – Material items of income and expenditure

The loss on disposal of non-current assets of £81.725m relates mainly to schools which have opted out of local authority control and have become academies. Under statutory regulations, assets in respect of the school are transferred from the local authority to the new academy body on a long term lease. As such the Council has had to write these assets out of its accounts for a nil consideration. The accounting entries require this 'loss' to be charged on the face of the Comprehensive Income and Expenditure Account and then this 'charge' is reversed out in the Movement in Reserves Statement, so that it does not have any impact on the Council Tax payer.

As part of this loss, assets have been transferred to the following schools during 2012/2013;

School	Loss on Disposal £m	Date of Transfer
Southmoor Academy	£26.220m	1st May 2012
Oxclose Community School Academy	£20.420m	1st November 2012
PortlandCollege	£7.075m	1st August 2012
Hastings Hill Primary School	£5.084m	1st December 2012
Eppleton Academy Primary School	£4.853m	1st June 2012
East Herrington Primary Academy	£4.316m	1st July 2012
Farringdon Primary School	£4.087m	1st December 2012
Fulwell Infant School Academy	£3.210m	1st December 2012
Springwell Dene School	£3.047m	1st February 2013
Holley Park Primary School	£2.829m	1st August 2012
Barbara Priestman School	£2.133m	1st August 2012
Non School		
Rainton Bridge Industrial Unit	(£1.300m)	21st December 2012
Other Net (Gains) and Losses	(£0.249m)	
Total	**£81.725m**	

Notes to the Accounts (continued)

Note 6 – Events after the Balance Sheet date

Non Adjusting Events after the Balance Sheet date

There are a number of events that have taken place since the accounts were certified on 28th June which are judged to be non adjusting post balance sheet events, which need to be included in the financial statements.

Schools transferred to Academy Status

The following schools that were part of the Council's asset base at 31st March 2013 have since transferred to Academy status and the value of the assets that will be written out of the accounts are as follows.

- New Penshaw Academy - £3.245m
- Plains Farm Academy - £2.902m
- Biddick School Sports College - £23.935m
- Diamond Hall Infant School - £2.816m
- Farringdon Sports College - £13,418m

Church aided schools that have become academies have no impact on the value of the Council's asset base, as these were previously not included in the Council's asset register in accordance with the Code.

Severance Scheme

The Council introduced a targeted severance scheme to support the achievement of planned budget efficiencies in 2013/2014 and 170 employees have subsequently taken advantage of this scheme.

National Non Domestic Rates changes

From 1 April 2013 the regime around the income that Local Authorities collect from National Non Domestic or Business Rates changes from one where the Council collects purely on behalf of Central Government to one where this income is shared between Central Government, Local Authorities and major precepting bodies (Tyne and Wear Fire and Rescue Authority (TWFRA) in Sunderland's case). This change affects the retention of that income collected and also carries a risk to the Council for failure to collect rates in comparison with a predetermined "Start-Up" funding assessment.

Risks of non-collection include rates billed from 1 April, but also those not yet collected from prior years and also appeals that were not resolved before that date.

In relation to Sunderland's Non Domestic Rates there is a general risk of non-collection and also the potential losses on appeal was estimated at £4.5m for prior year appeals as at 31 March 2013. Sunderland's share of these potential losses is 49%, with the balance being Government 50%, TWFRA 1%. This amounts to a potential loss to Sunderland of around £2.2m. These are potential losses at the point of change and if these losses are exceeded then the Council will further bear its share of that excess.

TWEDCO Voluntary Liquidation Update

Tyne and Wear Development Company Limited and its trading (Land Company Ltd) subsidiary ceased trading on 30th April 2013 as agreed previously. The Board of Directors also met on 30th April and formally approved the voluntarily liquidation of the Companies. This occurred on 9th July 2013.

Assets located within each shareholder council boundary transferred to that council, so Sunderland received industrial land and units with an asset value of £3,598,000 (as at 30.4.13) as a result of the Voluntary Liquidation process. Cash balances that remain with the Company, once all agreed liabilities have been met, are to be distributed on the basis of population, but as some matters are still being finalised and agreed, it is not currently possible to estimate how much cash resource the

Council will receive at this stage although the liquidation will be completed later within the current financial year (2013/2014).

Sunderland Live Limited

Operational from 1st April 2013, Sunderland Live Limited (SLL) is a wholly owned company established to plan, organise and deliver a range of public events within the council's area in accordance with the Business Plan. SLL had no operations or business dealings during the financial year ending 31st March 2013.

Note 7 – Adjustments between accounting basis and funding basis under regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which is can be applied and/or the financial year in which this can take place.

Notes to the Accounts (continued)

Note 7 - Adjustments between accounting basis and funding basis under regulations

	2011/2012				**2012/2013**			
	Usable				**Usable**			
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000	**General Fund Balance £'000**	**Capital Receipts Reserve £'000**	**Capital Grants Unapplied £'000**	**Movement in Unusable Reserves £'000**
Adjustments involving the Capital Adjustment Account:								
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>								
Charges for depreciation and impairment of non current assets	(38,189)	0	0	38,189	**(46,236)**	**0**	**0**	**46,236**
Revaluation losses on Property Plant and Equipment	(10,137)	0	0	10,137	**(13,235)**	**0**	**0**	**13,235**
Movements in the fair value of Investment Properties	(19,776)	0	0	19,776	**5,372**	**0**	**0**	**(5,372)**
Amortisation of intangible assets	(226)	0	0	226	**(414)**	**0**	**0**	**414**
Capital grants and contributions applied	12,551	0	0	(12,551)	**5,074**	**0**	**0**	**(5,074)**
Revenue expenditure funded from capital under statute	(7,915)	0	0	7,915	**(26,960)**	**0**	**0**	**26,960**
Amounts of non-current assets written off on derecognition, disposal or sale as part of the gain / (loss) on disposal	(51,423)	0	0	51,423	**(99,151)**	**0**	**0**	**99,151**
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>								
Statutory provision for the financing of capital investment	11,577	0	0	(11,577)	**10,941**	**0**	**0**	**(10,941)**
Capital expenditure charged against General Fund balances	17,361	0	0	(17,361)	**6,234**	**0**	**0**	**(6,234)**
Adjustments involving the Capital Grants Unapplied Account:								
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	15,315	0	(15,315)	0	**13,528**	**0**	**(13,528)**	**0**
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	11,038	(11,038)	**0**	**0**	**11,876**	**(11,876)**

Note 7 - Adjustments between accounting basis and funding basis under regulations

	2011/2012				**2012/2013**			
	Usable				**Usable**			
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000	**General Fund Balance £'000**	**Capital Receipts Reserve £'000**	**Capital Grants Unapplied £'000**	**Movement in Unusable Reserves £'000**
Adjustments involving the Capital Receipts Reserve:								
Transfer of cash sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	237	(723)	0	486	**2,709**	**(2,709)**	**0**	**0**
Use of the Capital Receipts Reserve to finance new capital expenditure	0	819	0	(819)	**0**	**13**	**0**	**(13)**
Contribution from the Capital Receipts Reserve to finance payments to the Government capital receipts pool	(23)	23	0	0	**(10)**	**10**	**0**	**0**
Adjustments involving the Deferred Capital receipts Reserve:								
Transfer of deferred sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	0	0	0	0	**(37)**	**0**	**0**	**37**
Transfer to the Capital receipts Reserve upon reciept of cash	0	0	0	0	**0**	**(469)**	**0**	**469**
Adjustments involving the Financial Instruments Adjustment Account:								
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(121)	0	0	121	**(127)**	**0**	**0**	**127**

Notes to the Accounts (continued)

Note 7 - Adjustments between accounting basis and funding basis under regulations

	2011/2012				**2012/2013**			
	Usable				**Usable**			
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000	**General Fund Balance £'000**	**Capital Receipts Reserve £'000**	**Capital Grants Unapplied £'000**	**Movement in Unusable Reserves £'000**
Adjustments involving the Pensions Reserve:								
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(35,630)	0	0	35,630	**(42,260)**	**0**	**0**	**42,260**
Employer's pensions contributions and direct payments to pensioners payable in the year	37,400	0	0	(37,400)	**39,200**	**0**	**0**	**(39,200)**
Adjustments involving the Unequal Pay Back Pay Adjustment Account:								
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	(3,081)	0	0	3,081	**0**	**0**	**0**	**0**
Adjustments involving the Collection Fund Adjustment Account:								
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	381	0	0	(381)	**285**	**0**	**0**	**(285)**
Adjustments involving the Accumulated Absences Account:								
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	226	0	0	(226)	**2,137**	**0**	**0**	**(2,137)**
Total Adjustments	(71,473)	119	(4,277)	75,631	**(142,950)**	**(3,155)**	**(1,652)**	**147,757**

Notes to the Accounts (continued)

Note 8 – Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2012/2013.

	Balance at 31 March 2011 £'000	Transfers Out 2011/2012 £'000	Transfers In 2011/2012 £'000	Balance at 31 March 2012 £'000	Transfers Out 2012/2013 £'000	Transfers In 2012/2013 £'000	**Balance at 31 March 2013 £'000**
General Fund Balance	12,419	(16,433)	11,584	7,570	(76,148)	76,148	**7,570**
Delegated Budget Reserves:							
Balances held by schools under a scheme of delegation	8,090	(7,603)	10,153	10,640	(10,609)	9,333	**9,364**
Delegated budgets reserve - general	9,971	(10,901)	6,340	5,410	(5,672)	4,703	**4,441**
Total Delegated Reserves	18,061	(18,504)	16,493	16,050	(16,281)	14,036	**13,805**
Capital Reserves:							
Unutilised RCCO Reserve	6,493	(4,680)	1,362	3,175	(1,095)	929	**3,009**
Strategic Investment Plan Reserve	9,837	(1,788)	0	8,049	(760)	94	**7,383**
Other General Capital Reserves	3,727	(352)	0	3,375	(61)	0	**3,314**
Children's Social Care Capital Reserve	192	0	0	192	0	0	**192**
Usable Capital Receipts	5,611	(842)	723	5,492	(23)	3,178	**8,647**
Capital Grants Unapplied	1,577	(11,039)	15,316	5,854	(11,876)	13,528	**7,506**
Total Capital Reserves	27,437	(18,701)	17,401	26,137	(13,815)	17,729	**30,051**
Earmarked Revenue Reserves:							
Insurance Reserve	3,948	(832)	569	3,685	(2,371)	2,617	**3,931**
Strategic Investment Reserve	61,314	(10,854)	18,119	68,579	(25,894)	9,838	**52,523**
Economic Development Reserve	300	0	0	300	(150)	0	**150**
Service Pressures Reserve	1,066	0	0	1,066	0	0	**1,066**
Sandhill Centre PFI Smoothing Reserve	2,709	(23)	0	2,686	(20)	0	**2,666**

Notes to the Accounts (continued)

Note 8 – Movements in usable reserves

	Balance at 31 March 2011 £'000	Transfers Out 2011/2012 £'000	Transfers In 2011/2012 £'000	Balance at 31 March 2012 £'000	Transfers Out 2012/2013 £'000	Transfers In 2012/2013 £'000	**Balance at 31 March 2013 £'000**
School Community Reserve	2,033	(1,980)	1,545	1,598	(1,452)	1,097	**1,243**
Connexions Hub Agreement	1,181	(637)	134	678	(169)	237	**746**
Education Redundancies Reserves	1,601	(1,378)	875	1,098	(218)	899	**1,779**
Street Lighting and Highways Signs PFI Smoothing Reserve	7,065	(381)	0	6,684	(426)	0	**6,258**
Adult Services Modernisation and Service Pressures Reserve	1,783	0	0	1,783	(1,625)	1,059	**1,217**
Play Areas Reserve	1,021	(168)	128	981	(158)	483	**1,306**
House Sale Income	1,428	(527)	255	1,156	(414)	200	**942**
WNF-Software City	2,600	(783)	0	1,817	(280)	0	**1,537**
WNF Visible Workshop and other projects	3,600	(50)	0	3,550	(2)	0	**3,548**
Modernisation Improvements	2,677	(196)	0	2,481	(1,017)	0	**1,464**
Utilities Reserve	1,043	0	0	1,043	0	0	**1,043**
Commercial and Economic Development Activity	1,500	0	0	1,500	0	0	**1,500**
Transition Enablement	0	0	3,967	3,967	(2,930)	0	**1,037**
Riverside Transfer	0	0	11,980	11,980	(130)	26	**11,876**
Weekly Collection Reserve	0	0	0	0	0	1,010	**1,010**
External Placements Reserve	360	0	1	361	(534)	1,530	**1,357**
Public Health Reserve	0	0	0	0	0	900	**900**
New Homes Bonus Reserve	0	0	577	577	(133)	1,152	**1,596**
Other Earmarked Reserves	13,021	(5,471)	4,918	12,468	(5,719)	6,382	**13,131**
Total Revenue Reserves	110,250	(23,280)	43,068	130,038	(43,642)	27,430	**113,826**
Total Reserves	**168,167**	**(76,918)**	**88,546**	**179,795**	**(149,886)**	**135,343**	**165,252**

Purpose of Earmarked Reserves

Capital Reserves:	Purpose of the Reserve
Un-utilised RCCO Reserve	The reserve consists of unutilised direct revenue financing and is fully earmarked to fund capital projects previously approved.
Strategic Investment Plan Reserve	This reserve is necessary to fund part of the Council's contribution to its Strategic Investment Plan approved by Council in April 2008.
Other General Capital Reserve	Usable capital receipts set aside to fund future capital projects previously approved.
Revenue Reserves:	**Purpose of the Reserve**
Insurance Reserve	This reserve has been established to provide for potential future claims or claim increases.
Strategic Investment Reserve	A reserve established to address some of the Council's key developments and strategic priorities.
Economic Development Reserve	This reserve was established to fund future economic development grants.
Service Pressures Reserve	To mitigate the potential budgetary impact of the economic downturn.
Street Lighting and Highway Signs PFI Smoothing Reserve	The reserve was established to smooth the financial impact of the contract across the 25 years of the contract life.
School Community Reserve	The reserve holds the surpluses on community schemes at schools. Reserve to be held until all schemes are closed.
Connexions Hub Agreement	The reserve is held as part of the current Hub agreement to provide for unforeseen costs.
Education Redundancies Reserve	The reserve was established to meet the anticipated costs of voluntary redundancies at schools as a result of falling pupil rolls within the Council's schools.
Adult Services Modernisation and Service Pressures Reserve	Reserve required to meet increased demand pressures especially in Learning Disabilities residential nursing and home and day care and modernisation investment requirements.
Play Areas Reserve	The reserve relates to monies paid over by the developers of new housing estates, under Section 106 of the Town and Country Planning Act 1990. On completion of the development the contributions are used to provide play equipment on housing developments.
House Sale Income	Reserve established from income owed to the Council for the care needs of clients in independent sector care homes.
WNF - Software City	Reserve established to help fund the development of Software City
WNF Visible Workshop	Reserve established to help fund the development of visible workshop.
Modernisation Improvements	Reserve established to assist with the financial implications of the Council's Modernisation plans including invest to save initiatives.
Utilities Reserve	Reserve established to protect the council against the future volatility of utility costs.
Commercial and Economic Development Activity	Reserve established to take advantage of commercial and economic development opportunities that will meet priorities of the Council.
Transition Reserve	Reserve established to meet the cost of future organisational changes

Notes to the Accounts (continued)

	Purpose of the Reserve
Riverside Transfer	Reserve established to fund ongoing maintenance of Homes and Communities Agency land transferred to the Council.
Weekly Collection Reserve	Reserve held to smooth funding over the five year weekly collection scheme.
External Placements Reserve	Reserve held to meet future costs of external placements in respect of Children's Social Care
Public Health Reserve	Reserve to be used to fund spend on Public Health initiatives in 2013/2014.
New Homes Bonus Reserve	Reserve established to fund initiatives that will stimulate house building or bring empty homes back into use.
Other Earmarked Reserves	Numerous small revenue reserves set up for specific purposes.

Note 9 – Other operating expenditure

2011/2012 £'000		**2012/2013 £'000**
53	Parish Council Precept	**54**
19,047	Levies	**18,047**
23	Payments to the Government Housing Capital Receipts Pool	**10**
51,186	(Gain) / losses on the disposal of non current assets	**81,725**
0	(Gain) / losses on the derecognition of non current assets	**14,717**
70,309	**Total**	**114,553**

Note 10 – Financing and investment income and expenditure

2011/2012 £'000		**2012/2013 £'000**
9,718	Interest payable and similar charges	**9,792**
6,310	Pensions interest cost and expected return on pension fund assets	**8,760**
(3,641)	Interest receivable and similar income	**(5,224)**
(339)	Surplus on Trading Undertakings	**(653)**
752	Deficit on Trading Undertakings	**0**
19,776	Income and expenditure in relation to investment properties and changes in their fair value	**(5,372)**
32,576	**Total**	**7,303**

Note 11 – Taxation and non specific grant income

2011/2012 £'000		**2012/2013 £'000**
(96,009)	Council Tax Income	**(97,142)**
(120,771)	Non domestic rates	**(145,368)**
(40,481)	Non-ringfenced government grants	**(5,398)**
(12,551)	Capital grants and contributions	**(13,756)**
(269,812)	**Total**	**(261,664)**

Note 12 – Property, Plant and Equipment
Movement on Balances 2011/2012

	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infrastructure Assets £'000	Assets Under Construction £'000	Total Property, Plant and Equipment £'000	PFI Assets included in Property Plant and Equipment £'000
Cost or Valuation						
At 1 April 2011	885,965	76,359	286,795	24,896	1,274,015	54,973
Additions	9,174	7,326	6,297	16,660	39,457	0
Revaluation increases / (decreases) recognised in the Revaluation Reserve	12,643	0	0	0	12,643	0
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	(8,400)	(25)	(2,587)	0	(11,012)	0
Derecognition	(54,163)				(54,163)	0
Other movements in Cost or Valuation	6,610	356	5,636	(12,602)	0	0
At 31 March 2012	**851,829**	**84,016**	**296,141**	**28,954**	**1,260,940**	**54,973**
Accumulated Depreciation and Impairment						
At 1 April 2011	53,849	35,362	69,372	0	158,583	9,419
Depreciation Charge	23,235	7,338	7,616	0	38,189	1,692
Depreciation written out to Revaluation Reserve	(6,212)	0	0	0	(6,212)	0
Depreciation written out to the Surplus / Deficit on the Provision of Services	(875)	0	0	0	(875)	0
Derecognition	(2,740)	0	0	0	(2,740)	0
At 31 March 2012	**67,257**	**42,700**	**76,988**	**0**	**186,945**	**11,111**
Net Book Value						
At 31 March 2011	**832,116**	**40,997**	**217,423**	**24,896**	**1,115,432**	**45,554**
At 31 March 2012	**784,572**	**41,316**	**219,153**	**28,954**	**1,073,995**	**43,862**

Notes to the Accounts (continued)

Movement on Balances 2012/2013

	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infrastructure Assets £'000	Assets Under Construction £'000	Surplus Assets £'000	Total Property, Plant and Equipment £'000	PFI Assets included in Property Plant and Equipment £'000
Cost or Valuation							
At 1 April 2012	851,829	84,016	296,141	28,954	0	1,260,940	54,973
Additions	11,646	2,620	4,534	7,815	0	26,615	0
Revaluation increases / (decreases) recognised in the Revaluation Reserve	11,070	0	0	0	0	11,070	0
Revaluation increases / (decreases) recognised in the Provision of Services	(13,396)	(4,727)	0	0	0	(18,123)	0
Impairment charged to the Provision of Services	(3,325)	0	(960)	0	0	(4,285)	0
Derecognition recognised in the Provision of Services	(16,414)	0	0	0	0	(16,414)	0
Derecognition of assets held as embedded lease	0	(3,991)	0	0	0	(3,991)	
Disposals	(91,445)	0	0	0	0	(91,445)	0
Other movements in Cost or Valuation	11,969	101	693	(16,105)	2,367	(975)	0
At 31 March 2013	**761,934**	**78,019**	**300,408**	**20,664**	**2,367**	**1,163,392**	**54,973**
Accumulated Depreciation and Impairment							
At 1 April 2012	67,257	42,700	76,988	0	0	186,945	11,111
Depreciation Charge	26,292	7,666	7,992	0	1	41,951	1,760
Depreciation written out to Revaluation Reserve	(27,565)	0	0	0	0	(27,565)	0
Depreciation recognised in the Provision of Services	(977)	(3,910)	0	0	0	(4,887)	0
Derecognition recognised in the Provision of Services	(1,697)	0	0	0	0	(1,697)	0
Derecognition of assets held as embedded lease	0	(1,641)	0	0	0	(1,641)	
Disposals	(7,011)	0	0	0	0	(7,011)	0
At 31 March 2013	**56,299**	**44,815**	**84,980**	**0**	**1**	**186,095**	**12,871**
Net Book Value							
At 31 March 2012	784,572	41,316	219,153	28,954	0	1,073,995	43,862
At 31 March 2013	**705,635**	**33,204**	**215,428**	**20,664**	**2,366**	**977,297**	**42,102**

Notes to the Accounts (continued)

Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Land and Buildings – 3 – 68 years
- Vehicles, Plant and Equipment – 5 – 20 years
- Infrastructure - 5 – 40 years

Capital Commitments

As at 31 March 2013, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2013/2014 and future years budgeted to cost £12.455m (As at 31 March 2012 £10.613m). The major commitments are:

- Washington Managed Workspace - £5.992m
- Old Sunderland Townscape Heritage Initiative - £1.305m
- Various other smaller schemes - £5.158m

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations are carried out internally. Valuations of Land and Buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on fair value using depreciated historical cost as a proxy for non-property assets that have short useful lives.

The significant assumptions applied in estimating the fair values are:

- Depreciated Replacement Cost method has been used where the asset is used by the Council to deliver services but the property is considered to be of a specialist nature in that there is little or no market evidence to support value
- Existing Use Value has been used where the asset is used by the Council to deliver services but is not specialised and there is market evidence to support value
- Assets are fit for the purpose for which they are used and will continue to remain so physically, complying with fire, health and safety or any other statutory regulations
- The assets are free from contamination and deleterious or hazardous substances
- Current use fully complies with current planning legislation and consents and the existing use will continue for the near future and will remain viable
- No allowance has been made for taxation, acquisition, realisation or disposal costs or other expenses
- Properties assessed by the DRC method of valuation are subject to the prospect and viability of the continuance of the occupation and use.

	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infra-structure Assets £'000	Assets Under Construction £'000	Surplus Assets £'000	Total £'000
Carried at historic cost	0	78,019	300,408	20,664	0	399,091
Valued at fair value as at:						
31 March 2013	247,883	0	0	0	2,367	250,250
31 March 2012	84,518	0	0	0	0	84,518
31 March 2011	187,972	0	0	0	0	187,972
31 March 2010	135,294	0	0	0	0	135,294
31 March 2009	106,267	0	0	0	0	106,267
Total Cost or Valuation	**761,934**	**78,019**	**300,408**	**20,664**	**2,367**	**1,163,392**

Note 13 – Heritage Assets

Reconciliation of the Carrying Value of Heritage Assets Held by the Council

	Collections Held by Tyne & Wear Museums £'000	Statues, Monuments and Public Art £'000	Other Historic Assets £'000	Total Assets £'000
Cost or Valuation				
1st April 2011	9,140	556	1,661	11,357
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluations	0	0	0	0
Impairment Losses / (Reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses / (Reversals) recognised in the Surplus or Deficit on the Provision of Services	0	0	0	0
Depreciation	0	0	0	0
31st March 2012	9,140	556	1,661	11,357
Cost or Valuation				
1st April 2012	9,140	556	1,661	11,357
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluations	0	0	0	0
Impairment Losses / (Reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses / (Reversals) recognised in the Surplus or Deficit on the Provision of Services	0	0	0	0
Depreciation	0	0	0	0
31st March 2013	**9,140**	**556**	**1,661**	**11,357**

Further details of the Council's Heritage Asset holdings can be found in Notes 48 and 49.

Notes to the Accounts (continued)

Note 14 – Investment properties

Rental income and Direct Operating expenses from investment property is accounted for within the Cost of Services in the Comprehensive Income and Expenditure Statement; this is a departure from the Code of Practice on Local Authority Accounting in the United Kingdom which prescribes that it is accounted for within the Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. Movement in the fair value of investment property has been accounted for within the Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

2011/2012 £'000		**2012/2013** **£'000**
2,143	Rental income from investment property	**1,257**
(912)	Direct operating expenses arising from investment property	**(583)**
1,231	**Net gain / (loss)**	**674**

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

The following table summarises the movement in the fair value of investment properties over the year as reported on the balance sheet:

2011/2012 £'000		**2012/2013** **£'000**
83,327	Balance at the start of the year	**63,551**
0	Disposals	**(460)**
(19,776)	Net gain / (losses) from fair value adjustments	**5,832**
	Transfers:	
0	To / (From) Property, Plant and Equipment	**0**
63,551	Balance at the end of the year	**68,923**

Gains in 2012/2013 from fair value adjustments reflect changes to planning status for some land and building assets (losses in 2011/2012 reflect the depressed market for land and building assets).

Note 15 – Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licences and internally generated software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful life for software is deemed to be between 5 and 10 years.

The carrying amount of intangible assets is amortised on a straight line basis. The amortisation of £0.414m charged to revenue in 2012/2013 was charged to administration cost centres and absorbed where appropriate as an overhead across service headings in the Cost of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

Notes to the Accounts (continued)

The movement on Intangible Asset balances during the year is as follows:

	2011/2012 Software Licences £'000	**2012/2013 Software Licences £'000**
Balance at start of year:		
Gross carrying amounts	2,219	**3,304**
Accumulated Amortisation	(710)	**(936)**
Net carrying amount at the start of the year	1,509	**2,368**
Additions		
Purchases	1,085	**231**
Amortisation for the period	(226)	**(414)**
Net carrying amount at the year end	2,368	**2,185**
Comprising		
Gross carrying amounts	3,304	**3,535**
Accumulated amortisation	(936)	**(1,350)**
	2,368	**2,185**

Software Licences have been purchased in the year for use on a number of the Council's IT systems. There are no items of capitalised software that are individually material to the financial statements.

Note 16 – Financial Instruments

Categories of Financial Instruments
The following categories of financial instrument are carried in the Balance Sheet.

	Long Term		Current	
	31 March 2012 £'000	**31 March 2013 £'000**	31 March 2012 £'000	**31 March 2013 £'000**
Investments				
Loans and receivables	0	**0**	166,832	**147,135**
Available-for-sale financial assets	817	**16,787**	0	**0**
Unquoted equity investment at cost	0	**0**	0	**0**
Financial assets at fair value through profit and loss	0	**0**	0	**0**
Total Investments	817	**16,787**	166,832	**147,135**
Debtors				
Loans and receivables	27,968	**40,889**	44,777	**41,990**
Financial assets carried at contract amount	0	**0**	28,988	**30,490**
Total included in Debtors	27,968	**40,889**	73,765	**72,480**
Borrowings				
Financial liabilities at amortised cost	(183,432)	**(179,744)**	(48,787)	**(53,942)**
Financial liabilities at fair value through profit and loss	0	**0**	0	**0**
Total included in Borrowings	(183,432)	**(179,744)**	(48,787)	**(53,942)**
Other Long Term Liabilities				
PFI and finance lease liabilities	(39,976)	**(36,707)**	0	**0**
Total other long term liabilities	(39,976)	**(36,707)**	0	**0**
Creditors				
PFI and finance lease liabilities	0	**0**	(1,593)	**(1,250)**
Financial liabilities at amortised cost	0	**0**	0	**0**
Financial liabilities carried at contract amount	0	**0**	(49,530)	**(44,581)**
Total creditors	0	**0**	(51,123)	**(45,831)**

Notes to the Accounts (continued)

Income, Expense, Gains and Losses
The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

	2011/2012				**2012/2013**			
	Financial Liabilities	Financial Assets		Total	**Financial Liabilities**	**Financial Assets**		**Total**
	Liabilities measured at amortised £'000	Loans and receivables £'000	Available for sale assets £'000	£'000	**Liabilities measured at amortised cost £'000**	**Loans and receivables £'000**	**Available for sale assets £'000**	**£'000**
Interest Expense	(6,590)	0	0	(6,590)	**(6,772)**	**0**	**0**	**(6,772)**
Total expenses in Surplus or Deficit on the Provision of Services	(6,590)	0	0	(6,590)	**(6,772)**	**0**	**0**	**(6,772)**
Interest Income	0	3,549	0	3,549	**0**	**5,131**	**0**	**5,131**
Total expenses in Surplus or Deficit on the Provision of Services	0	3,549	0	3,549	**0**	**5,131**	**0**	**5,131**
Net Gain / (loss) for the year	(6,590)	3,549	0	(3,041)	**(6,772)**	**5,131**	**0**	**(1,641)**

Notes to the Accounts (continued)

Fair Value of Assets and Liabilities carried at Amortised Cost

Financial assets and liabilities are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of cash flows that will take place over the remaining term of the instrument, using the following assumptions:

- For PWLB debt, the discount rate used is the premature repayment rates as per rate sheet number 124/13.
- For other market debt and investments the discount rate used is the rate available for an instrument with the same terms for a comparable lender.
- We have used interpolation techniques between available rates where the exact maturity period was not available.
- No early repayment or impairment is recognised.

We have calculated fair values for all instruments in the portfolio, the fair values calculated are as follows:

Liabilities	31 March 2012		**31 March 2013**	
	Carrying Amount £'000	Fair Value £'000	**Carrying Amount £'000**	**Fair Value £'000**
PWLB	142,917	166,371	**137,883**	**164,535**
LOBOs	40,215	41,437	**40,208**	**42,697**
Stock	102	88	**98**	**83**
Other	198	264	**1,555**	**1,607**
Bank Overdraft	12,080	12,080	**18,093**	**18,093**
Short Term Borrowing	36,707	36,707	**35,849**	**35,884**
Financial Liabilities	232,219	256,947	**233,686**	**262,899**

Fair value is more than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rates payable are higher than the rates available for similar loans at the balance sheet date. The commitment to pay interest is below current market rates, reducing the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans.

Assets	31 March 2012		**31 March 2013**	
	Carrying Amount £'000	Fair Value £'000	**Carrying Amount £'000**	**Fair Value £'000**
Deposits with Banks & Building Societies	208,119	209,206	**188,379**	**188,988**
Financial Assets	208,119	209,206	**188,379**	**188,988**

The fair value is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date.

At 31st March 2013 the Council holds £23.888m of funds in relation to the North Eastern Local Enterprise Partnership (£25.270m at 31st March 2012). These funds do not belong to the Council and are therefore not reflected in the Statement of Accounts.

Notes to the Accounts (continued)

Note 17 – Inventories

2011/2012

	Consumable Stores £'000	Maintenance Materials £'000	Client Services Work In Progress £'000	Total £'000
Balance Outstanding at start of year	1,210	139	344	1,693
Purchases	6,106	164	104	6,374
Recognised as an expense in the year	(6,147)	(171)	(344)	(6,662)
Written off balances	(29)	0	0	(29)
Balance outstanding at the year-end	1,140	132	104	1,376

2012/2013

	Consumable Stores £'000	Maintenance Materials £'000	Client Services Work In Progress £'000	Total £'000
Balance Outstanding at start of year	**1,140**	**132**	**104**	**1,376**
Purchases	**5,706**	**143**	**245**	**6,094**
Recognised as an expense in the year	**(5,856)**	**(156)**	**(104)**	**(6,116)**
Written off balances	**(19)**	**0**	**0**	**(19)**
Balance outstanding at the year-end	**971**	**119**	**245**	**1,335**

Note 18 – Short Term Debtors

2011/2012 £'000		2012/2013 £'000
8,281	Central government bodies	**5,911**
780	Other local authorities	**747**
150	NHS bodies	**952**
19,777	Other entities and individuals	**22,880**
28,988	**Total**	**30,490**

Note 19 – Cash and cash equivalents

The balance of cash and cash equivalents is made up of the following elements:

2011/2012 £'000		2012/2013 £'000
(8,589)	Cash held by the Council	**(17,347)**
36,278	Bank current accounts and Money Market Funds	**41,244**
5,008	Short-term deposits with banks and building societies	**0**
32,697	**Total Cash and Cash Equivalents**	**23,897**

Notes to the Accounts (continued)

Note 20 – Assets Held for Sale

A number of Council assets have been transferred from Property, Plant and Equipment and have been categorised as held for sale where the asset is available for immediate sale, there is a commitment to sell the asset, the asset has been actively marketed and a sale is expected within one year.

The carrying value of these assets is measured at fair value less costs to sell.

2011/2012 £'000		**2012/2013 £'000**
0	Balance outstanding at start of year	**0**
0	Transfer from non-current assets to current assets at year end	**975**
0	**Balance outstanding at year-end**	**975**

Note 21 – Short-Term Creditors

2011/2012 £'000		**2012/2013 £'000**
(9,469)	Central government bodies	**(6,988)**
(3,904)	Other local authorities	**(4,442)**
(2,943)	NHS bodies	**(2,392)**
(26,506)	Other entities and individuals	**(25,127)**
(42,822)	**Total**	**(38,949)**

Note 22 – Provisions

	Insurance Provision £'000	Other Provision £'000	Total £'000
Balance at 31 March 2011	4,026	5,648	9,674
Additional provisions made 2011/2012	3,148	5,135	8,283
Amounts used 2011/2012	(3,186)	(2,892)	(6,078)
Balance at 31 March 2012	3,988	7,891	11,879
Additional provisions made 2012/2013	**2,004**	**35,964**	**37,968**
Amounts used 2012/2013	**(1,064)**	**(7,476)**	**(8,540)**
Balance at 31 March 2013	**4,928**	**36,379**	**41,307**
Long Term provisions at 31st March 2013	**4,928**	**823**	**5,751**
Short Term Provisions at 31st March 2013	**0**	**35,556**	**35,556**

Included within other provisions: £0.351m back on the map temporary funding (2011/2012 £0.529m), £0.250m known transitional costs (2011/2012 £1.521m), £0.529m Carbon Reduction Commitments (2011/2012 £0.526m), £34.777m Unequal Pay back pay provision (2011/2012 £5.237m) and Guarantee Bonds of £0.129m (2011/2012 £0.078m). New provisions have been established in 2012/2013 relating to Guarantee Bond for ETEC Development Trust (£0.050m), City Centre property costs (£0.081m) and investment grants (£0.213m).

Note 23 – Usable Reserves

The total Usable Reserves held by the Council are £165.252m at 31st March 2013 (£179.795m at 31st March 2012) and these are detailed in the Movement in Reserves Statement. Movements in the Council's Usable Reserves are also detailed in Note 8 – Movement in Usable Reserves.

Note 24 – Unusable Reserves

2011/2012 £'000		Note	**2012/2013 £'000**
209,535	Revaluation Reserve	24a	**216,565**
702,662	Capital Adjustment Account	24b	**584,700**
(752)	Financial Instrument Adjustment Account	24c	**(879)**
(588,760)	Pensions Reserve	24d	**(640,520)**
1,130	Deferred Capital Receipts Reserve	24e	**624**
2,054	Collection Fund Adjustment Account	24f	**2,339**
(5,306)	Accumulated Absence Account	24g	**(3,169)**
795	Available for Sale Financial Instrument Reserve	24h	**16,400**
(3,081)	Unequal Backpay Account	24i	**0**
318,277	**Total Unusable Reserve**		**176,060**

The following tables show the detail for each line item as follows:

24a) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are;

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation, or;
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2011/2012 £'000		**2012/2013 £'000**
196,351	**Balance at 1 April**	**209,535**
18,856	Upward revaluation of assets	**58,937**
0	Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	**(20,302)**
215,207	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**248,170**
0	Revaluation gain transfers offsetting revaluation losses	**0**
4,635	Difference between fair value depreciation and historical cost depreciation	**7,001**
1,037	Accumulated gains on assets sold or scrapped	**24,604**
5,672	Amount written off to the Capital Adjustment Account	**31,605**
209,535	**Balance at 31 March**	**216,565**

24b) Capital Adjustment Account

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

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.
The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.
Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2011/2012 £'000		**2012/2013 £'000**
771,277	**Balance at 1 April**	**702,662**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(38,189)	Charges for depreciation and impairment of non-current assets	**(46,236)**
(10,137)	Revaluation losses on Property, Plant and Equipment	**(13,235)**
(226)	Amortisation of intangible assets	**(414)**
(7,882)	Net revenue expenditure funded from capital under statute	**(26,960)**
0	Net Book Value written out on derecognition of non current assets to the Comprehensive Income and Expenditure Account	**(14,717)**
(51,423)	Amount of non current assets written off on disposal or sale as part of the gain / (loss) on disposal to the Comprehensive Income and Expenditure Statement	**(84,434)**
(107,857)		**(185,996)**
0	Adjusting amounts written out of the Unequal Backpay Account	**(3,081)**
5,672	Adjusting amounts written out of the Revaluation Reserve	**31,605**
(102,185)	Net written out amount of the cost of non current assets consumed in the year	**(157,472)**
	Capital financing applied in the year:	
819	Use of Capital Receipts to finance new capital expenditure	**13**
12,551	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	**5,074**
11,038	Application of grants to capital financing from the Capital Grants Unapplied Account	**11,876**
11,577	Statutory provision for the financing of capital investment charged against the General Fund balance	**10,941**
17,361	Capital expenditure charged against the General Fund balance	**6,234**
53,346		**34,138**
(19,776)	Movement in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	**5,372**
702,662	**Balance at 31 March**	**584,700**

24c) Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

2011/2012 £'000		2012/2013 £'000
(631)	**Balance at 1 April**	**(752)**
100	Premiums incurred in the year charged to the Comprehensive Income and Expenditure Account	**99**
(221)	Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	**(226)**
(752)	**Balance at 31 March**	**(879)**

24d) Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2011/2012 £'000		2012/2013 £'000
(436,580)	**Balance at 1 April**	**(588,760)**
(153,950)	Actuarial gains or (losses) on pensions assets and liablilities	**(48,700)**
(35,630)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	**(42,260)**
37,400	Employer's pensions contributions and direct payments to pensioners payable in the year	**39,200**
(588,760)	**Balance at 31 March**	**(640,520)**

24e) Deferred Capital Receipts Reserve

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

2011/2012 £'000		2012/2013 £'000
1,650	**Balance at 1 April**	**1,130**
(35)	Transfer of deferred sale proceeds credited as part of the gain / (loss) on disposal to the Comprehensive Income and Expenditure Statement	**(37)**
(485)	Transfer to the Capital Receipts Reserve upon receipt of cash	**(469)**
1,130	**Balance at 31 March**	**624**

24f) Collection Fund Adjustment Account

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

2011/2012 £'000		2012/2013 £'000
1,673	**Balance at 1 April**	**2,054**
381	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from the council tax income calculated for the year in accordance with statutory requirements	**285**
2,054	**Balance at 31 March**	**2,339**

24g) Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2011/2012 £'000		2012/2013 £'000
(5,533)	**Balance at 1 April**	**(5,306)**
5,533	Settlement or cancellation of accrual made at the end of the preceding year	**5,306**
(5,306)	Amounts accrued at the end of the current year	**(3,169)**
(5,306)	**Balance at 31 March**	**(3,169)**

24h) Available for Sale Financial Instrument Reserve

The Available for Sale Financial Instrument Reserve contains the gains made by the Council arising from the increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable prices. The balance is reduced when the investments with accumulated gains are:

- Revalued downwards or impaired and the gains are lost.
- Disposed of and the gains are realised.

2011/2012 £'000		2012/2013 £'000
795	**Balance at 1 April**	**795**
0	Upward revaluation of investments not charged to the Surplus / Deficit on the Provision of Services	**15,605**
795	**Balance a 31 March**	**16,400**

24i) Unequal Pay Back Pay Account

The Unequal Pay Back Pay Account compensates for the difference between the rate at which the Council provides for the potential costs of back pay settlements in relation to Equal Pay cases and the ability under statutory provision to defer the impact on the General Fund Balance until such time as cash might be paid out to claimants.

Notes to the Accounts (continued)

2011/2012 £'000		2012/2013 £'000	2012/2013 £'000
0	**Balance at 1 April**		**(3,081)**
(3,081)	Increase in provision for back pay in relation to Equal Pay cases	**0**	
0	Cash settlement paid in year	**0**	**0**
0	Capitalisation Direction in accordance with statutory requirements	**3,081**	
0	Amount by which amounts charged for Equal Pay Claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	**0**	**3,081**
(3,081)	**Balance at 31 March**		**0**

Note 25 – Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2011/2012 £'000		2012/2013 £'000
3,641	Interest received	**5,224**
(9,718)	Interest paid	**(9,792)**
0	Dividends received	**0**

Note 26 – Cash Flow Statement – Investing Activities

2011/2012 £'000		2012/2013 £'000
43,770	Purchase of property, plant and equipment, investment property and intangible assets	**26,526**
0	Purchase of short-term and long-term investments	**145,365**
1,786	Other payments for investing activities	**14,585**
(238)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	**(2,709)**
0	Proceeds from short-term and long-term investments	**(165,000)**
(12,896)	Other receipts from investing activities	**(14,328)**
32,422	**Net cash flows from investing activities**	**4,439**

Note 27 – Cash Flow Statement – Financing Activities

2011/2012 £'000		2012/2013 £'000
(455)	Capital receipts of short and long-term borrowing	**(455)**
(11,857)	Other receipts from financing activities	**(1,369)**
0	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	**1,210**
3,140	Repayments of short and long term borrowing	**5,840**
21,520	Other payments for financing activities	**2,813**
12,348	**Net cash flows from financing activities**	**8,039**

Notes to the Accounts (continued)

Note 28 – Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across portfolios. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular;

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement);
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year;
- expenditure on some support services is budgeted for centrally and not charged to portfolios.

The income and expenditure of the Council is recorded below in line with the portfolio structure used for internal financial reporting:

Note 28 – Amounts Reported for Resource Allocation Decisions (continued)

Portfolio Income and Expenditure 2011/2012

	Leader and Deputy Leader £'000	Cabinet Secretary £'000	Children and Learning City £'000	Prosperous City £'000	Health and Well Being £'000	Safer City and Culture £'000	Attractive and Inclusive City £'000	Sustainable Communities £'000	Responsive Local Services and Customer Care £'000	Total £'000
Fees and Charges	(1,678)	(14,755)	(10,442)	(2,248)	(21,340)	(1,918)	(20,883)	(341)	(480)	(74,085)
Government grants	(25)	(149,306)	(205,979)	(507)	(11,054)	0	(2,206)	(946)	(1,635)	(371,658)
Other Grants, reimbursements and contributions	(4,000)	(3,632)	(8,210)	(1,462)	(28,291)	(1,784)	(1,281)	(80)	(59)	(48,799)
Total Income	(5,703)	(167,693)	(224,631)	(4,217)	(60,685)	(3,702)	(24,370)	(1,367)	(2,174)	(494,542)
Employee expenses	40,653	16,856	180,711	3,907	41,325	6,759	23,012	1,296	3,362	317,881
Other service expenditure	11,478	160,034	69,041	5,024	87,662	7,485	21,776	705	3,873	367,078
Total Expenditure	52,131	176,890	249,752	8,931	128,987	14,244	44,788	2,001	7,235	684,959
Net Expenditure	46,428	9,197	25,121	4,714	68,302	10,542	20,418	634	5,061	190,417

Internal reporting arrangements were reviewed early in 2012/2013 and Portfolio structure and responsibilities were amended on 16th May 2012. 2011/2012 comparative information has not been re-presented to reflect these changes.

Notes to the Accounts (continued)

Portfolio Income and Expenditure 2012/2013

	Leader £'000	Deputy Leader £'000	Cabinet Secretary £'000	Children's Services £'000	Health Housing and Adult Services £'000	Public Health Wellness and Culture £'000	City Services £'000	Responsive Services and Customer Care £'000	Total £'000
Fees, charges and other service income	(787)	(2,239)	(16,268)	(8,601)	(15,208)	(4,969)	(7,041)	(478)	(55,591)
Government grants	(1,402)	(153,612)	(499)	(183,128)	(19,786)	(52)	(3,111)	(1,617)	(363,207)
Other Grants, reimbursements and contributions	(982)	(1,198)	(2,367)	(14,520)	(25,990)	(1,979)	(1,015)	(403)	(48,454)
Total Income	(3,171)	(157,049)	(19,134)	(206,249)	(60,984)	(7,000)	(11,167)	(2,498)	(467,252)
Employee expenses	7,514	41,337	17,233	154,968	34,179	9,300	25,568	3,747	293,846
Other service expenditure	9,959	154,619	51,849	79,697	87,204	9,521	20,232	3,846	416,927
Depreciation, amortisation and impairment	7,030	2,416	7,034	24,346	1,661	5,056	10,486	1,856	59,885
Total Expenditure	24,503	198,372	76,116	259,011	123,044	23,877	56,286	9,449	770,658
Net Expenditure	21,332	41,323	56,982	52,762	62,060	16,877	45,119	6,951	303,406

Note 28 – Amounts Reported for Resource Allocation Decisions (continued)

Reconciliation of Portfolio Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of portfolio income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

2011/2012 £'000		**2012/2013 £'000**
190,417	Net expenditure in the portfolio analysis	**303,406**
53,806	Net expenditure of services and support services not included in the analysis	**0**
(13,293)	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	**(1,298)**
230,930	**Cost of Service in the Comprehensive Income and Expenditure Statement**	**302,108**

Note 28 – Amounts Reported for Resource Allocation Decisions (continued)

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of portfolio income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

Reconciliation to Subjective Analysis 2011/2012

	Portfolio Analysis £'000	Amounts not reported to management for decision making £'000	Allocation of Recharges £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges and other service income	(122,883)	0	0	(122,883)	(340)	(123,223)
Interest and investment income	0	0	0	0	(3,641)	(3,641)
Income from council tax	0	0	0	0	(96,009)	(96,009)
Government grants and contributions	(371,659)	(13,328)	0	(384,987)	(173,802)	(558,789)
Total Income	(494,542)	(13,328)	0	(507,870)	(273,792)	(781,662)
Employee expenses	317,880	35	0	317,915	0	317,915
Other service expenses	367,079	0	0	367,079	752	367,831
Support service recharges	0	0	0	0	0	0
Depreciation, amortisation and impairment	0	0	53,806	53,806	19,776	73,582
Interest Payments	0	0	0	0	16,028	16,028
Precepts and Levies	0	0	0	0	19,100	19,100
Payments to Housing Capital Receipts Pool	0	0	0	0	23	23
Gain or Loss on Disposal of Non-current Assets	0	0	0	0	51,186	51,186
Total Expenditure	684,959	35	53,806	738,800	106,865	845,665
Surplus or deficit on the provision of services	190,417	(13,293)	53,806	230,930	(166,927)	64,003

Notes to the Accounts (continued)

Note 28 – Amounts Reported for Resource Allocation Decisions (continued)

Reconciliation to Subjective Analysis 2012/2013

	Portfolio Analysis £'000	Amounts not reported to management for decision making £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges and other service income	**(104,045)**	**(1,333)**	**(105,378)**	**(653)**	**(106,031)**
Interest and investment income	**0**	**0**	**0**	**(5,224)**	**(5,224)**
Income from council tax	**0**	**0**	**0**	**(97,142)**	**(97,142)**
Government grants and contributions	**(363,310)**	**0**	**(363,310)**	**(164,522)**	**(527,832)**
Total Income	**(467,355)**	**(1,333)**	**(468,688)**	**(267,541)**	**(736,229)**
Employee expenses	**293,846**	**35**	**293,881**	**0**	**293,881**
Other service expenses	**416,927**	**0**	**416,927**	**0**	**416,927**
Depreciation, amortisation and impairment	**59,988**	**0**	**59,988**	**(5,372)**	**54,616**
Interest Payments	**0**	**0**	**0**	**18,552**	**18,552**
Precepts and Levies	**0**	**0**	**0**	**18,101**	**18,101**
Payments to Housing Capital Receipts Pool	**0**	**0**	**0**	**10**	**10**
Gain or Loss on Disposal of Non-current Assets	**0**	**0**	**0**	**96,442**	**96,442**
Total Expenditure	**770,761**	**35**	**770,796**	**127,733**	**898,529**
Surplus or deficit on the provision of services	**303,406**	**(1,298)**	**302,108**	**(139,808)**	**162,300**

Note 29 – Trading Operations

The Council is required to publish the financial results of services it operates on a trading account basis.

	2011/2012			**2012/2013**		
	Expenditure £'000	Turnover £'000	(Surplus) / Deficit £'000	**Expenditure £'000**	**Turnover £'000**	**(Surplus) / Deficit £'000**
City Print Services	1,823	1,071	752	**0**	**0**	**0**
General Highways	2,561	2,824	(263)	**4,138**	**4,676**	**(538)**
Education and Civic Buildings Maintenance	8,424	8,461	(37)	**9,412**	**9,483**	**(71)**
Networking Services	234	273	(39)	**136**	**180**	**(44)**
	13,042	12,629	413	**13,686**	**14,339**	**(653)**

Note 30 – Agency Services

As detailed within Related Party Transactions (Note 37), the Council provides support services to various other Authorities or Bodies.

A limited range of agency services are also provided to third parties on behalf of these organisations, however, the level of this activity is very low in value and has therefore not been detailed in the accounts.

Note 31 – Pooled Budgets

Section 75 of the NHS Act 2006 allows partnership arrangements between National Health Service (NHS) bodies, Local Authorities, and other agencies in order to improve and co-ordinate services. A pooled budget is established to which each partner organisation makes an agreed contribution. The aim of the partnership is to provide a service to a target client group and allow organisations to work in a more unified way. Included within the Council's accounts are four such partnership schemes with Sunderland Teaching Primary Care Trust (STPCT). The notes below summarise the financial performance of each scheme and offers a brief explanation of their purpose.

As part of the changes to the NHS brought about by the Health and Social Care Act 2012, Primary Care Trusts (PCTs) ceased to exist on 31st March 2013. Their responsibilities, including all pooled budget arrangements with local authorities, have been taken over by Clinical Commissioning Groups (CCGs).

Community Equipment Service
The aim of this service is to provide all the residents of Sunderland, with an assessed need, appropriate equipment in order to improve their ability to live in their own homes and to encourage independence.

	2011/2012 £'000	**2012/2013 £'000**
Sunderland City Council	(1,038)	**(1,038)**
Sunderland Teaching Primary Care Trust	(1,325)	**(1,325)**
Total Funding	(2,363)	**(2,363)**
Gross Expenditure	2,742	**2,708**
Net (Funding) / Expenditure	379	**345**

Learning Disabilities
The aim of this service is to plan and implement a joint service for people in residential care with learning disabilities identified as difficult to support within existing learning disability establishments.

	2011/2012 £'000	**2012/2013 £'000**
Sunderland City Council	(959)	**(918)**
Sunderland Teaching Primary Care Trust	(1,519)	**(1,430)**
Total Funding	(2,478)	**(2,348)**
Gross Expenditure	2,392	**2,452**
Net (Funding) / Expenditure	(86)	**104**

Intermediate Care

The aim of this service is the improvement of the intermediate care for older people to facilitate early discharge of people who are medically fit but need extra support through rehabilitation care and preventing unnecessary admission or re-admission to hospital or longer term care, through closer working arrangements with partners.

	2011/2012 £'000	**2012/2013 £'000**
Sunderland City Council	(1,238)	**(1,234)**
Sunderland Teaching Primary Care Trust	(988)	**(984)**
Total Funding	(2,226)	**(2,218)**
Gross Expenditure	2,197	**2,079**
Net (Funding) / Expenditure	(29)	**(139)**

Mental Capacity Act / Deprivation of Liberties

The overall aim of this pooled budget is to facilitate the provision of Mental Capacity Act coordinators, by effective coordination of resources of the parties through the pooled budget, and enabling the parties to work closely together to provide the necessary resources to ensure so far as practicable, compliance with the Mental Capacity Act 2005 (as amended) insofar as it relates to the provision of Assessments.

	2011/2012 £'000	**2012/2013 £'000**
Sunderland City Council	(27)	**(38)**
Sunderland Teaching Primary Care Trust	(36)	**(50)**
Total Funding	(63)	**(88)**
Gross Expenditure	38	**65**
Net (Funding) / Expenditure	(25)	**(23)**

Note 32 – Members’ Allowances

The Council paid the following amounts to members of the council during the year.

	2011/2012 £'000	**2012/2013 £'000**
Allowances	1,055	**1,148**
Expenses	22	**30**
Total	1,077	**1,178**

Note 33 – Officers' Remuneration

The tables below disclose the specific remuneration information in relation to 'Senior' officers. Officers whose salary is £50,000 or more per year but less than £150,000 are listed individually by way of job title. Officers whose salary is £150,000 or more per year are also identified by name. The disclosure is made for 2012/2013 and 2011/2012 in the following categories:

- salaries, fees and allowances;
- bonuses;
- expenses allowance;
- compensation for loss of employment;
- benefits in kind;
- employees' pension contributions.

Notes to the Accounts (continued)

Post Holder Information	Salary (Including Fees and Allowances) £	Bonuses £	Expense Allowances £	Compensation for loss of office £	Benefits in Kind £	Total Remuneration excluding Pension Contributions £	Pension Contributions £	Total Remuneration including Pension Contributions £
2011/2012								
Senior Officer Emoluments exceeding £150,000 per year								
Chief Executive - Dave Smith	202,562	0	0	0	7,852	210,414	30,031	240,445
Senior Officer Emoluments exceeding £50,000 but less than £150,000								
Deputy Chief Executive	124,932	0	0	0	0	124,932	18,441	143,373
Executive Director of Adult Services	115,068	0	0	0	0	115,068	16,570	131,638
Executive Director of Children's Services	112,705	0	0	0	0	112,705	16,228	128,933
Executive Director of City Services	122,940	0	0	0	0	122,940	17,703	140,643
Executive Director of Corporate and Commercial Services	124,220	0	0	0	0	124,220	17,703	141,923
Strategic Director of Transformation*	48,682	0	0	0	0	48,682	7,133	55,815
Head of Legal Services	85,941	0	0	0	0	85,941	12,347	98,288

* Officer not in post for a full year

Notes to the Accounts (continued)

Post Holder Information	Salary (Including Fees and Allowances) £	Bonuses £	Expense Allowances £	Compensation for loss of office £	Benefits in Kind £	Total Remuneration excluding Pension Contributions £	Pension Contributions £	Total Remuneration including Pension Contributions £
2012/2013								
Senior Officer Emoluments exceeding £150,000 per year								
Chief Executive - Dave Smith	**199,627**	**0**	**0**	**0**	**5,336**	**204,963**	**26,694**	**231,657**
Senior Officer Emoluments exceeding £50,000 but less than £150,000								
Deputy Chief Executive	**129,369**	**0**	**0**	**0**	**0**	**129,369**	**18,441**	**147,810**
Executive Director of Adult Services	**125,546**	**0**	**0**	**0**	**0**	**125,546**	**17,703**	**143,249**
Executive Director of Children's Services	**117,816**	**0**	**0**	**0**	**0**	**117,816**	**16,966**	**134,782**
Executive Director of City Services *	**51,908**	**0**	**0**	**0**	**0**	**51,908**	**7,475**	**59,383**
Executive Director of Commercial and Corporate Services	**124,246**	**0**	**0**	**0**	**0**	**124,246**	**17,703**	**141,949**
Head of Legal Services	**84,773**	**0**	**0**	**0**	**0**	**84,773**	**12,235**	**97,008**

* Officer not in post for a full year

Notes to the Accounts (continued)

The number of other employees, whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 is shown below:

	2011/2012		**2012/2013**	
	Non-Teaching Staff	Teaching Staff	**Non-Teaching Staff**	**Teaching Staff**
£50,000 - £54,999	42	56	29	43
£55,000 - £59,999	19	25	14	24
£60,000 - £64,999	2	30	8	24
£65,000 - £69,999	7	26	4	19
£70,000 - £74,999	4	6	4	8
£75,000 - £79,999	12	5	10	3
£80,000 - £84,999	2	3	1	4
£85,000 - £89,999	8	2	5	1
£90,000 - £94,999	3	1	3	1
£95,000 - £99,999	2	0	3	0
£100,000 - £104,999	0	2	0	0
£105,000 - £109,999	1	1	0	2
£110,000 - £114,999	1	0	0	0
£115,000 - £119,999	1	0	0	0
£120,000 - £124,999	2	0	0	0
£125,000 - £129,999	1	0	0	0
£135,000 - £139,999	1	1	1	0
£140,000 - £144,999	0	0	0	1
£205,000 - £209,999	0	0	0	0
£210,000 - £214,999	1	0	0	0

Please note that the reduction in both teaching and non-teaching staff whose remuneration exceeds £50,000 reflects significant organisational change within the Council during 2012/2013, including a number of schools transferring to Academy status and also the impact of the Council's severance scheme.

Over recent years the Council has implemented a range of workforce planning measures in order to address financial pressures. All costs relating to 2012/2013 are reflected within the Cost of Service on the Comprehensive Income and Expenditure Statement. However, it should be noted that the Comprehensive Income and Expenditure Statement also includes technical accounting adjustments required by Accounting Standards with regard to past service pension costs.

The number of all exit packages with total cost per band and total cost of these packages are set out in the tables below:

2011/2012

Exit package cost band £'000	Number of agreed departures (Non-Teaching)	Cost of Exit Packages in each band (Non-Teaching)			Number of agreed departures (Teaching)	Cost of Exit Packages in each band (Teaching)			Total Cost of Exit Packages in each band		
		Payment to Employee £'000	Pension Costs £'000	Total Cost £'000		Payment to Employee £'000	Pension Costs £'000	Total Cost £'000	Payment to Employee £'000	Pension Costs £'000	Total Cost £'000
£0 - £20	91	247	0	247	20	247	0	247	494	0	494
£20 - £40	2	49	0	49	22	534	0	534	583	0	583
£40 - £60	0	0	0	0	1	40	0	40	40	0	40
£60 - £80	0	0	0	0	1	69	0	69	69	0	69
£80 - £100	0	0	0	0	0	0	0	0	0	0	0
Total	93	296	-	296	44	890	-	890	1,186	-	1,186

2012/2013

Exit package cost band £'000	Number of agreed departures (Non-Teaching)	Cost of Exit Packages in each band (Non-Teaching)			Number of agreed departures (Teaching)	Cost of Exit Packages in each band (Teaching)			Total Cost of Exit Packages in each band		
		Payment to Employee £'000	Pension Costs £'000	Total Cost £'000		Payment to Employee £'000	Pension Costs £'000	Total Cost £'000	Payment to Employee £'000	Pension Costs £'000	Total Cost £'000
£0 - £20	**448**	**4,038**	**467**	**4,505**	**44**	**387**	**7**	**394**	**4,425**	**474**	**4,899**
£20 - £40	**227**	**4,540**	**1,602**	**6,142**	**6**	**147**	**0**	**147**	**4,687**	**1,602**	**6,289**
£40 - £60	**62**	**1,286**	**1,761**	**3,047**	**3**	**144**	**0**	**144**	**1,430**	**1,761**	**3,191**
£60 - £80	**29**	**643**	**1,314**	**1,957**	**1**	**73**	**0**	**73**	**716**	**1,314**	**2,030**
£80 - £100	**10**	**268**	**637**	**905**	**0**	**0**	**0**	**0**	**268**	**637**	**905**
£100 - £150	**8**	**235**	**690**	**925**	**0**	**0**	**0**	**0**	**235**	**690**	**925**
£150 - £200	**4**	**83**	**611**	**694**	**0**	**0**	**0**	**0**	**83**	**611**	**694**
Total	**788**	**11,093**	**7,082**	**18,175**	**54**	**751**	**7**	**758**	**11,844**	**7,089**	**18,933**

Please note that:

- 2011/2012 does not reflect Pension Costs relating to exit packages. These costs have been included for 2012/2013.
- The total cost of £18.9m in 2012/2013 is made up of two elements; £11.8m which reflects payments to employees and £7.1m payments to the pension fund to reflect the strain on the fund costs arising from the early release of pensions.

Note 34 – External Audit Costs

Sunderland City Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors.

	2011/2012 £'000	**2012/2013** **£'000**
Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	299	**180**
Fees payable to external auditors in respect of statutory inspections	0	**0**
Fees payable to external auditors with regard to additional external audit services carried out by the appointed auditor	0	**0**
Fees payable to external auditors for the certification of grant claims and returns for the year	38	**16**
Fees payable in respect of other services provided by external auditors during the year	0	**8**
Rebate received relating to audit services in previous year	(24)	**(19)**
Total Costs	337	**185**

Note 35 – Dedicated Schools' Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the Council's area. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on a council-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2012/2013 are as follows:

	Schools Budget Funded by DSG		
	Central Expenditure £'000	Individual Schools Budget (ISB) £'000	Total £'000
Final DSG for 2012/2013 before Academy recoupment			**193,615**
Academy figure recouped for 2012/2013			**41,039**
Total DSG after Academy recoupment for 2012/2013			**152,576**
Plus			
Brought forward from 2011/2012			**0**
Less			
Carry forward to 2013/2014 agreed in advance			**0**
Agreed initial budgeted distribution in 2012/2013	**11,308**	**141,268**	**152,576**
In Year Adjustments	**(531)**	**531**	**0**
Final budgeted distribution in 2012/2013	**10,777**	**141,799**	**152,576**
Less			
Actual central expenditure	**10,456**		**10,456**
Less			
Actual ISB deployed to schools		**141,799**	**141,799**
Plus			
Local authority contribution for 2012/2013	**0**	**0**	**0**
Carry forward to 2013/2014	**321**	**0**	**321**

Note 36 – Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

	2011/2012 £'000	**2012/2013 £'000**
Credited to Services		
Revenue Grants:		
Department for Education - Dedicated Schools Grant	175,345	**152,576**
Department for Education - Standards Fund	869	**0**
Department for Education - Early Intervention Grant	16,062	**16,278**
Department for Education - Pupil Premium	3,788	**6,317**
Department for Education	349	**417**
Children's Workforce Development Council	496	**0**
Young People's Learning Agency	7,539	**5,209**
Skills Funding Agency	3,412	**3,552**
Department for Work and Pensions - Housing & Council Tax Benefit	149,306	**153,797**
Department for Work and Pensions	153	**0**
Department of Health - Learning Disabilities and Health Reform Grant	11,004	**14,409**
Department of Health	150	**0**
Communities and Local Government - PFI	3,734	**3,734**
Communities and Local Government - European Grants	185	**519**
Communities and Local Government - New Homes Bonus Grant	577	**1,152**
Communities and Local Government - Weekly Collection Grant	0	**1,010**
Communities and Local Government	353	**311**
Home Office	48	**411**
Youth Justice Board	1,033	**1,014**
New Deal for Communities	151	**0**
Sport England	284	**49**
Northern Arts	140	**167**
Other Grants	874	**1,020**
	375,852	**361,942**
Capital Grants:		
Department for Education	11,197	**629**
Department of Health	1,194	**779**
Communities and Local Government	1,777	**2,145**
Communities and Local Government - Single Housing Investment Pot	530	**89**
Department of Energy and Climate Change	0	**486**
Department for Transport	5,181	**0**
Homes and Communities Agency	1,947	**370**
One North East	1,000	**0**
Other Capital Grants	1,081	**349**
	23,907	**4,847**
Total	399,759	**366,789**

Notes to the Accounts (continued)

	2011/2012 £'000	**2012/2013 £'000**
Credited to Taxation and Non Specific Grant Income		
Revenue Grants:		
Revenue Support Grant	37,331	**2,818**
National Non Domestic Rates	120,771	**145,368**
Council Tax Freeze Grant	2,377	**2,408**
Local Services Support Grant	773	**172**
	161,252	**150,766**
Capital Grants:		
Department for Education	3,694	**7,021**
Department for Transport	634	**5,517**
Department of Health	254	**104**
Home Office	41	**0**
Homes and Communities Agency	755	**77**
One North East / CLG (European)	5,773	**882**
Heritage Lottery Fund	14	**3**
Department for Environment, Food and Rural Affairs	24	**87**
Commission for Architecture and the Built Environment	707	**0**
Other Capital Grants and Contributions	654	**65**
	12,550	**13,756**
Total	173,802	**164,522**

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that may require the monies or property to be returned to the provider. The balances at the year-end are as follows:

	2011/2012 £'000	**2012/2013 £'000**
Capital Grant Receipts in Advance		
Department for Education	2,842	**1,699**
Department for Education - Sure Start	66	**0**
Department of Health	38	**308**
Communities and Local Government	741	**725**
Communities and Local Government - Single Housing Investment Pot	361	**272**
Department for Environment, Food and Rural Affairs	29	**148**
Homes and Communities Agency	4,063	**3,694**
One North East	161	**0**
Other Grants and Contributions	0	**36**
Total	8,301	**6,882**

Note 37 – Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government
Central Government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that

the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 28 on reporting for resource allocation decisions and further detailed in Note 36.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2012/2013 is shown in Note 32. In respect of the 2012/2013 financial year a number of Council members had a controlling interest in a company, partnership, trust or entity which generated a related party transaction with the Council. The controlling influence was by way of ownership, or as a director, trustee or partner. These transactions amounted to payments of £1.210m made by the Council in 2012/2013 (£2.154m in 2011/2012), of which £0.000 (£0.019m for 2011/2012) relates to Cabinet Delegated Schemes approved grants in support of the arts, sports, promotions and tourism, £0.745m (£0.306m for 2011/2012) payments to companies and £0.465m (£1.828m for 2011/2012) to voluntary organisations.

It should be noted that all Council members' pecuniary and non-financial interests which could conflict with those of the Council are open to public inspection as required by the Local Authority (Members' Interests) Regulation (SI 1992/618) laid under Section 19 of the Local Government and Housing Act 1989. The relevant members must therefore declare an interest (which was minuted) and they do not take part in any discussion or decision relating to the transactions concerned.

Officers

In respect of the 2012/2013 financial year no Chief Officers had a controlling interest in a company, partnership, trust or entity which is considered to have generated a related party transaction with the Council.

Entities Controlled or Significantly Influenced by the Council

Care and Support Sunderland Ltd

Care and Support Sunderland Ltd was established on 7th October 2011, following the administration and bankruptcy of Choices Care Ltd. Choices Care Ltd provided specialist learning disability care services to 95 residents in 17 homes in Sunderland, with two contracts collectively valued at around £6.8m per annum.

Care and Support Sunderland Ltd is a wholly owned subsidiary of Sunderland City Council. In the 12 months to 31st March 2013, the company's income amounted to £6.838m with expenditure of £7.359m generating a trading loss of £0.521m.

The company has no assets.

Tyne and Wear Development Company Ltd

The Tyne and Wear Development Company Ltd (TWEDCo) was established in 1986 by Tyne and Wear County Council and the five District Councils of Tyne and Wear. TWEDCo is a company limited by guarantee and does not have a share capital. Sunderland has three representatives on the Board of Directors as does each of the other four district councils of Tyne and Wear.

Members of the Company have a limited guarantee of £1. The Council acts as an agent for the Company in managing its property interests in Sunderland, as well as providing legal and financial services as Lead Authority, and makes a charge for these services against the Company's income. During 2012/13, the board of directors made the decision to review the role of TWEDCo and its related group of companies on the basis that both the economic development landscape had changed with the creation of the North Eastern Local Enterprise Partnership and that the local authorities were now providing a similar role to that of the company. A detailed due diligence process was carried out culminating in the Board approving the cessation of the company's trading activities from 30th April 2013, with a formal recommendation to voluntary liquidate the group of Companies before 30th June 2013.

The Voluntary Liquidation will terminate the Company and is scheduled for 27th June 2013 and a detailed heads of terms agreement has been agreed between the shareholders that reflects the

Company's winding up clauses in its articles of association and that also deals with some other financial issues. The draft management accounts to 30th April 2013, have confirmed the voluntary liquidation position to the Liquidator. Upon winding up of the Company, its property portfolio will transfer by location to each district council with any remaining cash balances, being distributed by population, once all liabilities have been addressed during the term of the liquidation.

The draft management accounts of the Company for the period from 1st April 2011 to 30th April 2013 show a consolidated trading loss of £0.616m (this position however reflects significant one-off costs associated with the Company's winding up and as a consequence there is no equivalent comparative figures) and had net assets worth £14.011m. The draft management accounts must be updated to the date of when the Voluntary Liquidation is approved by the Board, so the accounts provided may change as a result, but any changes at this stage will not be material.

The finances of the Company cease to exist once liquidated and all finances will then be overseen by the appointed Liquidator, in collaboration with Sunderland as Lead Authority. The year end reporting period for the 2011/12 accounting period was extended to 30th September 2012, as a result the accounts for this extended period are not required to be provided to Companies House if the Company is liquidated before 30th June 2013.

Any further information in respect of the liquidation once finalised can be acquired upon application to the Executive Director of Commercial and Corporate Services, at Sunderland City Council.

Newcastle Airport

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. On 4th May 2001, the seven local authority shareholders of NIAL (the "LA7") entered into a strategic partnership with Copenhagen Airports A/S for the latter to purchase a 49% share of Newcastle International Airport. This involved the creation of a new company, NIAL Holdings Limited, which is 51% owned by LA7. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited, a company wholly owned by the seven authorities. The Newcastle Airport Local Authority Holding Company Limited has a called up share capital of 10,000 shares with a nominal value of £1 each. The Council originally held a shareholding of 1,845 shares representing an 18.45% interest in the company. These shares are not held for trading outside of the LA7.

The valuation of the shareholding is reviewed each year to consider whether any events have occurred which would materially change the valuation. The last full independent valuation was carried out in May 2010 which valued the shareholding at £0.795m based upon the discounted cash flow method. This valuation approach was used as no open market share value was available for the holding.

On 16th November 2012, Copenhagen Airports A/S sold its 49% holding to AMP Capital Investors. As a result, the valuation of the LA7 holding is now based on the open market value achieved in this sale. At the same time an internal sale of shares also took place within the LA7 group. The Council as a result acquired an additional 42 shares and now holds an 18.87% interest in Newcastle Airport Local Authority Holding Company Limited, valued at £16.400m using the open market value of the shares. Through its shares in Newcastle Airport Local Authority Holding Company Limited the Council now has a revised effective shareholding of 9.62% in Newcastle International Airport Limited (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of Newcastle International Airport Limited (Registered Number 2077766) is the provision of landing services for both commercial and freight operators. Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012/13, issuing £67.665m shareholder loan notes. The loan notes will be repayable in 2032. No dividends were payable for the year ended 31st December 2012, (nil for the year ended 31st December 2011).

Other than the loan notes there are no outstanding balances owed to or from NIAL at the end of the year. NIAL Group Limited made a loss before tax of £2.361m and a profit after tax of £1.502m for the year ended 31st December 2012. In the previous year, the Group made a loss before tax of £2.884m and a profit after tax of £1.404m.

Sunderland Empire Theatre Trust

The Sunderland Empire Theatre Trust is a company limited by guarantee. The principal activity of the Trust is to operate the Sunderland Theatre. The Council has 12 representatives on the Board of 17 Directors.

The Council has a facilities management arrangement with the Ambassador Theatre Group for a fixed annual amount, the amount paid by the Council totalled £0.399m in 2012/2013, (£0.383m in 2011/2012).

In 2012/2013, the turnover of the Trust was under £30,000 and as such audited accounts are not required. The Trust made a small surplus of £20 in 2012/2013 (surplus of £25 for 2011/2012) which will increase its reserves to meet future costs. Its reserves as at 31 March 2013 now stand at £7,114 (£7,094 as at 31 March 2012). In 2012/2013 the Council made a contribution of £11,627 (£12,118 for 2011/2012) to the Trust and the Council also has to meet its own obligations in the form of the upkeep of the building to which the Trust has no liability. A copy of the Trust accounts can be obtained from the Director of Commercial and Corporate Services, Sunderland City Council, Civic Centre, P.O. Box 106, Sunderland, SR2 7DN.

Beamish Museum Joint Committee and related companies

Beamish Museum was established in 1970 and the Council has been a constituent member Authority of Beamish North of England Open Air Museum since its inception. The Council makes an annual contribution towards the running costs of the Joint Committee, this totalled £15,903 in 2012/2013 (£15,903 in 2011/2012).

The Joint Committee is responsible for the assets of the Museum and makes all decisions on capital schemes and procuring grants for capital development. Beamish Museum Limited (a charitable company limited by guarantee) is responsible for managing and operating the Museum on behalf of the Joint Committee. A subsidiary of Beamish Museum Limited (BML), Beamish Museum Trading Limited (BMTL) manages all of the retailing and catering operations of the Museum.

In 2012/2013 the Joint Committee made an operating loss of £0.326m (2011/2012 £0.028m profit) and had net assets of £22.719m (2011/2012 £22.007m).

In 2012/2013 the BML and BMTL group made an operating loss of £0.460m (2011/2012 £0.162m loss) and had net liabilities of £1.282m (2011/2012 £0.944m net liabilities). The Council receives no income or contributions from the above reported arrangements. Copies of the Joint Committee's and Group Accounts can be obtained from the Museum Director, Regional Resource Centre, Beamish, County Durham, DH9 0RG.

North East Local Enterprise Partnership (NELEP)

The North East Local Enterprise Partnership (NELEP) is a strategic partnership committed to promoting and developing economic growth in the North East. NELEP covers the 7 Local Authority areas of Sunderland, Durham, Gateshead, Newcastle, North Tyneside, Northumberland and South Tyneside. The NELEP Board comprises, nine private sector representatives including the Chair, seven local authority representatives, one higher education representative and one representative of further education colleges.

The Council is the Designated Accountable Body for the NELEP and as such is required to account for revenue transactions within the Comprehensive Income and Expenditure Statement under agency arrangements. At 31st March 2013 the Council held £23.888m of funds in relation to NELEP (£25.270m at 31st March 2012). These funds do not belong to the Council and are therefore not reflected in the Statement of Accounts and there are no assets or liabilities belonging to NELEP reflected on the Council's Balance Sheet.

Other Relevant Information

The Council provides support services (including financial support services) to the following related parties:

Tyne & Wear Fire and Rescue Authority, Beamish Museum Joint Committee, Beamish Museum Limited, Beamish Museum Trading Limited, Empire Theatre Trust Company Limited, Bowes Railway, Hetton Town Council, Tyne and Wear Development Company Limited, Tyne and Wear Economic Development Joint Committee, Care and Support Sunderland Limited, Raich Carter Sports Centre, Pooled Budget Arrangements with the local Teaching Primary Care Trust, Tyne and Wear Care Alliance, Academies and Voluntary Aided Schools.

Note 38 – Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2011/2012 £	**2012/2013** **£**
Opening Capital Financing Requirement	243,997	**239,073**
Derecognition of Embedded Lease Assets	0	**(2,349)**
Capitalisation Direction transfer from Unequal Backpay Account	0	**3,081**
Capital Investment		
Property, Plant and Equipment	40,944	**26,615**
Investment Properties	0	**0**
Intangible Assets	1,085	**231**
Revenue Expenditure Funded from Capital under Statute	14,985	**26,960**
Sources of Finance		
Capital Receipts	(819)	**(13)**
Government grants and other contributions	(32,181)	**(16,950)**
Sums set aside from:		
Direct revenue contributions	(17,361)	**(6,234)**
MRP	(11,577)	**(10,941)**
Closing Capital Financing Requirement	239,073	**259,473**
Explanation of movements in year		
(Decrease) in underlying need to borrow (supported by government financial assistance)	(8,032)	**(2,448)**
Increase in underlying need to borrow (unsupported by government financial assistance)	4,980	**26,765**
(Decrease) in underlying need to borrow of assets acquired under finance leases	(367)	**(2,384)**
(Decrease) in underlying need to borrow of assets acquired under PFI contracts	(1,505)	**(1,533)**
Increase / (decrease) in Capital Financing Requirement	(4,924)	**20,400**

Note 39 – Leases

Council as Lessee

Finance Leases

The Council has acquired a number of administrative buildings and vehicles under finance leases.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	2011/2012 £'000	**2012/2013** **£'000**
Other Land & Buildings	11,198	**11,175**
Vehicles, Plant, Furniture and Equipment	2,286	**0**
	13,484	**11,175**

The reduction in Vehicles, Plant, Furniture and Equipment relates to a prior year adjustment in respect of embedded leases identified from contract vehicle hire arrangements. These arrangements were fully reviewed in 2012/13 and are not considered to be finance leases as they are short term contract vehicle hire arrangements.

The council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	2011/2012 £'000	**2012/2013** **£'000**
Finance Lease Liabilities (net present value of minimum lease payments):		
Current	383	**16**
Non-current	7,595	**6,634**
Finance costs payable in future years	2,823	**0**
Minimum lease payments	10,801	**6,650**

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	2011/2012 £'000	**2012/2013** **£'000**	2011/2012 £'000	**2012/2013** **£'000**
Not later than one year	1,402	**16**	537	**16**
Later than one year and not later than five years	2,811	**63**	1,985	**63**
Later than five years	6,588	**6,571**	6,570	**6,571**
	10,801	**6,650**	9,092	**6,650**

Operating Leases

The council has acquired a number of vehicles by entering into operating leases, with typical lives of seven years.

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

	2011/2012 £'000	**2012/2013 £'000**
Not later than one year	74	**51**
Later than one year but not later than five years	50	**20**
Later than five years	0	**0**
	124	**71**

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £144,273 (2011/2012 £322,273).

The council has use of a small number of properties by entering into operating leases. The annual payment of £588,971 in 2012/2013 (2011/2012 £622,320) relates to the following periods:

	2011/2012 £'000	**2012/2013 £'000**
Not later than one year	224	**276**
Later than one year but not later than five years	100	**18**
Later than five years	298	**295**
	622	**589**

Council as Lessor

Finance Leases

The Council has leased out the following properties under finance lease arrangements:

- Bungalows lease to Three Rivers Housing – remaining lease 11 years
- Raich Carter Centre – remaining lease 13 years
- Marine Activity Centre – remaining lease 109 years

The Council has no investment remaining in these leases and receives only a peppercorn rent.

Operating Leases

The Council leases out under operating leases for the following purposes:

- for the provision of community services
- for economic development purposes to provide suitable affordable accommodation for local businesses

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

	2011/2012 £'000	**2012/2013 £'000**
Not later than one year	3,140	**2,127**
Later than one year but not later than five years	1,452	**1,383**
Later than five years	1,951	**3,463**
	6,543	**6,973**

Note 40 – Private Finance Initiatives and Similar Contracts

The Council currently operates two PFI schemes, with a third to become operational by April 2014:

- Sandhill View School and Community and Learning Centre became operational in September 2002. This development also included some facilities previously provided separately including Grindon Library.

Notes to the Accounts (continued)

- The Council also entered into a PFI contract, on 12 August 2003, to provide replacement highway signs and street lighting, this includes ongoing maintenance, over a period of 25 years. The contract began on 1 September 2003 and will last until 31 August 2028.

- The South Tyne and Wear Waste Management Partnership comprises Gateshead, Sunderland and South Tyneside Councils. A PFI contract has been signed with a consortium led by SITA for the Treatment and Disposal of Residual Municipal Waste for a period of 25 years from a planned service commencement date of April 2014. Gateshead performs the Lead Authority function with an Inter Authority Agreement and Authority Sub-Contacts between the partner authorities.

Property, Plant and Equipment
The assets used to provide services under the two existing PFI schemes are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment in Note 12.

Payments
The council makes agreed payments each year which are increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PFI contract at 31 March 2013 (excluding any estimation of inflation and availability / performance deductions) are as follows:

	Payment for Services £'000	Reimbursement of Capital Expenditure £'000	Interest £'000	Total £'000
Payable in 2013/2014	3,378	1,234	3,324	7,936
Payable within 2 to 5 years	15,828	5,051	12,120	32,999
Payable within 6 to 10 years	21,703	9,716	12,829	44,248
Payable within 11 to 15 years	24,062	14,328	7,758	46,148
Payable within 16 to 20 years	1,527	979	184	2,690
Payable within 21 to 25 years	0	0	0	0
Payable within 26 to 30 years	0	0	0	0
Total	66,498	31,308	36,215	134,021

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

	2011/2012 £'000	**2012/2013 £'000**
Balance outstanding at the start of the year	33,708	**32,518**
Payments during the year	(1,190)	**(1,210)**
Capital expenditure incurred in year	0	**0**
Balance outstanding at the year end	32,518	**31,308**

Note 41 – Impairment Losses

During 2012/2013, the Council recognised impairment losses totalling £4.285m (£7.933m in 2011/2012). These impairment losses related to work undertaken on Council assets that had not led to a corresponding increase in value. The main areas of impairment are works to various Council offices and other assets that will generate long term savings (£1.678m) and works to various schools (£0.940m).

Note 42 – Termination Benefits

The Council terminated the contracts of a number of employees in 2012/2013, incurring liabilities of £18.933m (£1.186m in 2011/2012). This included a limited number of compulsory redundancies (£0.096m relating to 29 employees). Of the total liability incurred, £0.758m related to teachers (£0.890m in 2011/2012). Please see Note 33 for the number of exit packages and the total cost per band.

Note 43 – Pension Scheme Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teachers Pension Scheme, administered by the Department of Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department of Education uses a notional fund as the basis for calculating the employer's contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2012/2013, the Council paid £9.665m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2011/2012 were £11.584m and 14.1%. There were no contributions remaining payable at the year end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 44.

Note 44 – Defined Benefit Pension Schemes

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in two post-employment schemes:

- The Local Government Pension Scheme, administered locally by South Tyneside Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2011/2012 £m	**2012/2013 £m**	2011/2012 £m	**2012/2013 £m**
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	26.44	**26.84**	0.00	**0.00**
Past service cost	2.88	**6.66**	0.00	**0.00**
Settlements and curtailments	0.00	**0.00**	0.00	**0.00**
Financing and Investment Income and Expenditure				
Interest cost	63.80	**63.27**	2.43	**2.15**
Expected return on scheme assets	(59.92)	**(56.66)**	0.00	**0.00**
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	33.20	**40.11**	2.43	**2.15**
Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement				
Actuarial gains and losses	150.40	**45.67**	3.55	**3.03**
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	183.60	**85.78**	5.98	**5.18**
Movement in Reserves Statement				
or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(0.88)	**4.39**	(0.89)	**(1.33)**
Actual amount charged against the General Fund Balance for pensions in the year:				
Employers contributions payable to the scheme	34.08	**35.72**	3.32	**3.48**
Retirement payments payable to pensioners	38.58	**46.38**	0.00	**0.00**

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2013 is a loss of £425.33m (a loss of £376.63m at 31 March 2012).

Notes to the Accounts (continued)

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligations):

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2011/2012 £m	**2012/2013 £m**	2011/2012 £m	**2012/2013 £m**
Opening balance at 1 April	1,181.70	**1,348.74**	45.84	**48.50**
Current service cost	26.44	**26.84**	0.00	**0.00**
Interest cost	63.80	**63.27**	2.43	**2.15**
Contributions by scheme participants	8.78	**7.80**	0.00	**0.00**
Actuarial gains and (losses)	103.72	**85.70**	3.55	**3.03**
Benefits paid	(38.58)	**(46.38)**	(3.32)	**(3.48)**
Past service cost	2.88	**6.66**	0.00	**0.00**
Entity combinations	0.00	**0.00**	0.00	**0.00**
Curtailments	0.00	**0.00**	0.00	**0.00**
Settlements	0.00	**0.00**	0.00	**0.00**
Closing balance at 31 March	1,348.74	**1,492.63**	48.50	**50.20**

Reconciliation of fair value of the scheme (plan) assets:

	Local Government Pension Scheme	
	2011/2012 £m	**2012/2013 £m**
Opening balance at 1 April	790.96	**808.48**
Expected rate of return	59.92	**56.66**
Actuarial gains and (losses)	(46.68)	**40.03**
Employer contributions	34.08	**35.72**
Participant contributions	8.78	**7.80**
Benefits paid	(38.58)	**(46.38)**
Entity combinations	0.00	**0.00**
Settlements	0.00	**0.00**
Closing balance at 31 March	808.48	**902.31**

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

The actual return on scheme assets in the year was £96.69m (£13.24m in 2011/2012)

	2008/2009 £m	2009/2010 £m	2010/2011 £m	2011/2012 £m	**2012/2013 £m**
Present value of liabilities:					
Local Government Pension Scheme	920.91	1,276.85	1,181.70	1,348.74	**1,492.63**
Discretionary Benefits	46.40	50.04	45.84	48.50	**50.20**
Fair value of assets in the Local Government Pension Scheme	(538.38)	(752.77)	(790.96)	(808.48)	**(902.31)**
	428.93	574.12	436.58	588.76	**640.52**
Surplus / (Deficit) in the scheme:					
Local Government Pension Scheme	(382.53)	(524.08)	(390.74)	(540.26)	**(590.32)**
Discretionary Benefits	(46.40)	(50.04)	(45.84)	(48.50)	**(50.20)**
Total	(428.93)	(574.12)	(436.58)	(588.76)	**(640.52)**

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The total liability of £1,542.83m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a positive balance sheet worth of £341.312m. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2014 are £30.47m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2014 are £3.55m.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefit liabilities have been assessed by Aon Hewitt Limited an independent firm of actuaries, estimates for the Council fund being based on the latest full valuation of the scheme as at 1 April 2010.

The principal assumptions used by the actuary have been:

Notes to the Accounts (continued)

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2011/2012	**2012/2013**	2011/2012	**2012/2013**
Long-term expected rate of return on assets in the scheme:				
Equity investments	8.1%	**7.8%**	N/A	**N/A**
Property	7.6%	**7.3%**	N/A	**N/A**
Government Bonds	3.1%	**2.8%**	N/A	**N/A**
Corporate Bonds	3.7%	**3.8%**	N/A	**N/A**
Cash	1.8%	**0.9%**	N/A	**N/A**
Other	8.1%	**7.8%**	N/A	**N/A**
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	21.6 years	**21.7 years**	21.6 years	**21.7 years**
Women	23.8 years	**23.9 years**	23.8 years	**23.9 years**
Longevity at 65 for future pensioners				
Men	23.4 years	**23.5 years**	23.4 years	**23.5 years**
Women	25.7 years	**25.8 years**	25.7 years	**25.8 years**
RPI	3.5%	**3.6%**	3.4%	**3.5%**
CPI	2.5%	**2.7%**	2.4%	**2.6%**
Rate of increase in salaries	5.0%	**4.6%**	N/A	**N/A**
Rate of increase in pensions	2.5%	**2.7%**	2.4%	**2.6%**
Rate for discounting scheme liabilities	4.7%	**4.4%**	4.6%	**4.1%**
Commutation - Pre 1 April 1998	50.0%	**50.0%**	N/A	**N/A**
Commutation - Post 31 March 2008	75.0%	**75.0%**	N/A	**N/A**

The Discretionary Benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	2011/2012 %	**2012/2013 %**
Equities	68.5	**68.0**
Property	9.2	**9.0**
Government Bonds	7.1	**7.0**
Corporate Bonds	11.6	**11.0**
Cash	1.9	**1.6**
Other	1.7	**3.4**
Total	100.0	**100.0**

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2012/2013 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013.

	2008/2009 %	2009/2010 %	2010/2011 %	2011/2012 %	**2012/2013 %**
Difference between the expected and actual return on assets	(22.1)	26.8	3.6	(5.8)	**4.4**
Experience gains and losses on liabilities	1.3	2.3	1.0	(0.5)	**0.1**

Notes to the Accounts (continued)

Note 45 – Contingent Liabilities

The City Council, together with the other Tyne and Wear district councils, are guarantors to the Tyne and Wear Pension Fund in respect of employees of the North East Regional Assembly and the Association of North East Councils. Also in addition on 1st June 2011 the Council, in agreement with the other Tyne and Wear authorities, agreed to act as guarantors for the pension liabilities of the North East Regional Employers Organisation (NEREO), Disability North, the Percy Hedley Foundation and Tyne and Wear Enterprise Trust (ENTRUST) from 1st April 2011. The Councils involved have agreed with the Pension Fund administrators that if any of the above bodies should cease operating then any pension deficit would be repaid over a 10 year repayment period. The Council's share of the potential liabilities (based upon the latest Actuarial Valuation) in the unlikely event that all of the bodies should fail would be approximately £1.11 million in total.

The City Council acts as a guarantor for the No Limits Theatre Company to the Tyne and Wear Pension Fund in respect of pensions for transferring employees. The Council also acts as a guarantor for those employees that were employed originally by the Council but transferred to Gentoo, on the basis that basic pension only would be funded (no added years). This is a diminishing potential liability, however, as staff turnover occurs and transferred staff retire.

Future possible payments may be required to Gentoo (formerly the Sunderland Housing Group) under the terms of the Transfer Agreement established between the Council and Gentoo for claims relating to non environmental and environmental warranties. This agreement was drawn up as part of the Large Scale Voluntary Transfer which took place on 26th March 2001 which transferred all Council Housing and related assets to Gentoo. The amount included in the Agreement stipulates that the Council's maximum liability to the Group in respect of all claims howsoever made shall not exceed in aggregate the sum of £240.0m and as yet no claims have been made.

A revised claim was received from Pyeroy of approximately £0.395m, (previously £0.260m), in respect of the Wearmouth Bridge Works which were completed in August 2003. The dispute has already been considered by an Adjudicator who dismissed Pyeroy's claim; however they have referred the dispute to formal arbitration. The Council continues to resist Pyeroy's claim and has sought advice from Queen's Counsel on this matter. The Council is reasonably confident that Pyeroy will not succeed but it is still however considered prudent to disclose a contingent liability in the accounts. The claim continues to be resisted by the Council.

The Council has a number of outstanding equal pay claims from staff who are seeking financial redress in respect of periods when unequal pay is alleged to have been applied by the Council. The majority of claims have been stayed by the Employment Tribunal to allow settlement discussions to take place. A significant number of the claims have been settled, with efforts ongoing to settle the remainder of the stayed cases.

The Environment Agency has confirmed that the Council is one of a number of named organisations that is a potential contributor to the costs of remediation of contaminated land at Halliwell Banks in Sunderland. The cost of the remediation works cannot yet be accurately quantified and it is not possible to determine the level of the Council's exposure at this current time. The first stage of the remediation process is for the organisations concerned to jointly instruct an independent third party to undertake a detailed investigation of the site, in order to obtain a clearer understanding of the condition of the land. The position is being kept under regular review and it is considered prudent to treat it as a contingent liability.

The Council has been made aware of its share (0.4022%) of the potential pensions fund liabilities in respect of Port of Sunderland staff that belong to the Pilots' National Pension Fund. The liability becomes effective from1st April 2015 and the amounts involved will be dependent upon the actuary's advice at that time. An indicative liability totalling approximately £0.800 million has recently been provided, with redress to be spread annually over a projected 14 year period, until 2028.

Note 46 – Contingent Assets

The Council has a number of outstanding VAT claims lodged with HM Revenue and Customs (HMRC) in relation to overpaid output tax, the value of these claims amounts to £4.750m. However HMRC has been successful in refuting these claims and there is now doubt about the probability of a successful conclusion for recovery of these claims. There is continuing litigation against HMRC and as the position has not yet been fully resolved, the Council has reflected its claims as a contingent asset pending a final decision by the courts.

The Council entered into an agreement with Wainhomes (Yorkshire) Ltd and Persimmon Homes Ltd to make phased payment contributions to educational facilities at Easington Lane Primary School; a locally equipped play area; public open space and sports and recreation facilities under Section 106 of the Town and County Planning Act 1990. The monies will be paid to the Council upon phased sale of properties at the development of land at Murton Lane, Hetton-le-Hole, the timing of which is uncertain. The total value of the agreement is £1.253m.

The Council entered into an agreement with St Modwen Developments Ltd to make phased payment contributions to educational facilities. The monies will be paid to the Council upon phased sale of properties at the development of land at Lisburn Terrace / Pallion New Road, the timing of which is uncertain. The total value of the agreement is £0.345m and as the first phase of the development has been reached in early May 2013 the Council will receive its first stage payment of £0.122m which effectively reduces the estimated amount outstanding to £0.223m.

The Council also has a number of other smaller Section 106 Agreements in place that may generate contributions from the various developers involved, once certain trigger points in the phased developments occur. These developments are actively monitored by the Council during each financial year in order to safeguard the amounts due.

Note 47 - Nature and Extent of Risk Arising from Financial Instruments

The Council's management of treasury risks activity works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council has fully adopted CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risks.

Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of high quality banks and building societies that are on the Council's Approved Lending List. The counterparty criteria and associated investment limits are set out in the table below, taking account of the credit ratings issued by all three credit rating agencies(Fitch, Moody's and Standard & Poor's):

Notes to the Accounts (continued)

Fitch / S&P's Long Term Rating	Fitch Short Term Rating	S&P's Short Term Rating	Moody's Long Term Rating	Moody's Short Term Rating	Maximum Deposit £m	Maximum Duration
AAA	F1+	A1+	Aaa	P-1	**110**	2 Years
AA+	F1+	A1+	Aa1	P-1	**90**	2 Years
AA	F1+	A1+	Aa2	P-1	40	364 days
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	20	364 days
A+	F1	A-1	A1	P-1	10	364 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	10	364 days
A-	F1 / F2	A-2	A3	P-1 / P-2	5	6 months
Local Authorities (limit for each local authority)					30	2 years
UK Government (including debt management office, gilts and treasury bills)					90	2 years
Money Market Funds Maximum amount to be invested in Money Market Funds is £80m with a maximum of £40m in any one fund.					80	Liquid Deposits
Local Authority controlled companies (# duration limited to 20 years in accordance with Capital Regulations)					20	# 20 years

In addition to the criteria identified above limits are also placed on the country in which the institution is resident, the sector of the institution and if companies are members of a group of companies then a limit is placed on the group. Full details of these limits can be found in the Council's Treasury Management Policy and Strategy

The following analysis summarises the Council's potential maximum exposure to credit risk, based on past experience and current market conditions. The Council expects full repayment on the due date of deposits placed with its counterparties

	Amount at 31 March 2013 £'000	Historical Experience of default %	Historical Experience adjusted for market conditions as at 31 March 2013 £'000	Estimated maximum exposure to default and uncollectability at 31 March 2013 £'000	Estimated maximum exposure to default and uncollectability at 31 March 2012 £'000
Deposits with Banks and other financial institutions	188,119	0	0	0	0
Bonds and other securities	0	0	0	0	0
Customers	14,473	3.60	0	515	481
Financial Assets	**202,592**		**0**	**515**	**481**

No credit limits were exceeded during the reporting period and the Council does not expect any loss from non performance by any of its counterparties in relation to deposits and bonds.

The Council does not generally allow credit for customers, such that £14.473m of the £45.459m is beyond its due date for payment. The past due amount can be analysed by age as follows:

	31 March 2012 £'000	**31 March 2013 £'000**
Less than 3 months	11,958	**13,453**
Three to six months	309	**435**
Six months to one year	359	**347**
More than one year	283	**238**
	12,909	**14,473**

Liquidity Risk

The Council has access to a facility to borrow from the Public Works Loan Board. As a result there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates. The maturity analysis of financial liabilities is as follows:

Loans Outstanding	2012 £'000	**31 March 2013 £'000**
Less than 1 year	36,707	**35,849**
Maturing in 1-2 years	5,047	**10,095**
Maturing in 2-5 years	10,194	**5,515**
Maturing in 5-10 years	23,249	**24,250**
Maturing in 10-20 years	10,202	**5,154**
Maturing in 20-30 years	25	**22**
Maturing in 30-40 years	15,000	**26,000**
Maturing in 40-50 years	84,500	**73,500**
Maturing in more than 50 years	35,215	**35,208**
Total	220,139	**215,593**

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

Market Risk

The Council is exposed to interest rate risk in different ways; the first being the uncertainty of interest paid / received on variable rate instruments, and the second being the affect of fluctuations in interest rates on the fair value of an instrument.

The current interest rate risk for the Council is summarised below:

- Decreases in interest rates will affect interest earned on variable rate investments, potentially reducing income credited to the Income and Expenditure Statement.
- Increases in interest rates will affect interest paid on variable rate borrowings, potentially increasing interest expense charged to the Income and Expenditure Statement.
- The fair value of fixed rate financial assets will fall if interest rates rise. This will not impact on the Balance Sheet for the majority of assets held at amortised cost, but will impact on the disclosure note for fair value. It would have a negative effect on the Balance Sheet for those assets held at fair value in the Balance Sheet, which would also be reflected in the MiRS.
- The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not impact on the Balance Sheet for the majority of liabilities held at amortised cost, but will impact on the disclosure note for fair value.

The Council has a number of strategies for managing interest rate risk and these are set out in the Council's Annual Treasury Management Policy and Strategy Statement. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid to limit exposure to losses. The risk of loss is ameliorated to a certain extent by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates of the Council's cost of borrowing and therefore provide 'compensation' for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and this is updated and reviewed regularly during the year. This allows for any adverse changes to be considered and addressed where appropriate. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31st March 2013, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	31 March 2012 £'000	**31 March 2013 £'000**
Increase in interest payable on variable rate borrowings	(498)	**(390)**
Increase in interest received on variable rate borrowings	2,134	**2,415**
Net Impact on Income and Expenditure Account	1,636	**2,025**
Decrease in fair value of 'available for sale' investment assets	0	**0**
Impact on MiRS	0	**0**
Decrease in fair value of fixed rate investment assets (No impact on Comprehensive I&E Statement or MiRS)	(705)	**(586)**
Decrease in fair value of fixed rate borrowing liabilities (No impact on Comprehensive I&E Statement or MiRS)	28,031	**30,284**

Price Risk

The Council does not generally invest in equity shares but does have shareholdings to the value of £16,400,181 (2011/2012 £795,123) in Newcastle Airport which is not listed on the stock exchange. The Council is consequently exposed to any variation arising from the movement in the price of these shares which were re-valued in 2012/2013 as a result of a change in strategic partner for the Airport during the re-financing process, which provided a 'market' price on which to base the valuation of the shares held by the council.

The Council holds a small number of various gilts and unit trusts with a value at cost of £19,541 (2011/2012 £19,541) which are classified as 'available for sale', meaning that all movements in price, would, if considered material impact on the gains and losses recognised in the MiRS. The market value of these holdings as at 31st March 2013 was £134,976 in total (the value at 31st March 2012 was £110,986).

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus no exposure to loss arising from movements in exchange rates.

Note 48 – Heritage Assets: Five-Year Summary of Transactions

	2008/2009 £'000	2009/2010 £'000	2010/2011 £'000	2011/2012 £'000	2012/2013 £'000
Cost of Acquisitions of Heritage Assets					
Collections held by Tyne & Wear Museums	0	0	7	0	0
Statues, Monuments and Public Art	0	0	0	0	0
Other Historic Assets	0	0	0	0	0
Total Cost of Purchases	0	0	7	0	0
Value of Assets Aquired by Donation					
Collections held by Tyne & Wear Museums	0	0	0	0	0
Statues, Monuments and Public Art	0	0	0	0	0
Other Historic Assets	0	0	0	0	0
Total Donations	0	0	0	0	0
Proceeds from Disposal					
Collections held by Tyne & Wear Museums	0	0	0	0	0
Statues, Monuments and Public Art	0	0	0	0	0
Other Historic Assets	0	0	0	0	0
Total Proceeds	0	0	0	0	0
Carrying Value	0	0	10	0	0
Proceeds	0	0	0	0	0

Note 49 – Heritage Assets: Further Information on the Council's holdings and Accounting Policy

Collections held by Tyne & Wear Museums
Sunderland City Councils share of the artefacts held by Tyne & Wear Museums with a value in excess of £10,000.

Statues, Monuments and Public Art
The values of statues, monuments and public art where the value can be separately identified have been classified as heritage assets. In the future all capital expenditure in excess of £10,000 on such items will be classified as heritage assets.

Other Historic Assets
Other objects held by the Council with a value in excess of £10,000 that can be classified as historic assets. Items include, the book of remembrance, copy of the Lindisfarne gospels, miners' banners, etc.

Accounting Policy
The Code of Practice on Local Authority Accounting in the United Kingdom 2011/2012 introduced a change to the treatment in accounting for heritage assets held by the Authority. Heritage assets are now required to be carried in the balance sheet at valuation.

From 2011/2012 the Council was required to change its accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were either recognised as community assets (at cost) in the property, plant and equipment classifications in the Balance Sheet or were not recognised in the Balance Sheet and it was not possible to obtain cost information on the assets. Community Assets (that are now classed as Heritage Assets) that were donated to the Council are held at valuation as a proxy for historical cost. The Council has not recognised any assets previously held as community assets as heritage assets, this is because the cost of revaluing elements of community assets outweighs the benefit of the disclosure. Capital schemes on community assets are now analysed and any of the expenditure in excess of £10,000 relating to Historic Assets is capitalised as Historic Assets and held at historic cost. Revaluations, impairments or disposals are actioned against this balance sheet valuation. This is departure from the Code of recommended practice on Local Authority Accounting in England and Wales 2012/2013.

The Council has recognised collections held by Tyne and Wear museums for artefacts with a value in excess of £10,000 and assets valuations held on the Council's insurance schedule for assets classified as historic assets with a value in excess of £10,000.

In applying the new policy the Council identified an additional £11.357m for the recognition of heritage assets that were not previously recognised in the Balance Sheet. This increase is also recognised in the Revaluation Reserve.

Comprehensive Income and Expenditure

There is no impact on the Comprehensive Income and Expenditure Statement.

Note 50 – Trust Funds

The Council is responsible for the administration of a number of trust funds on behalf of their specified trustees. These funds do not represent assets of the Council and are therefore not included in the Council's Balance Sheet. At 31st March 2013 the Council was responsible for 42 of these funds (40 relating to Children's Services and 2 relating to Adult Social Services), details of which are shown below.

	Balance at 01/04/2012 £'000	Additions during the year £'000	Income £'000	Expenditure £'000	**Balance at 31/03/2013 £'000**
Childrens Services Trust Funds	72	0	1	(15)	**58**
Adult Services Trust Funds	71	0	0	0	**71**
	143	0	1	(15)	**129**

Supplementary Statement

Collection Fund Account for Year Ended 31 March 2013

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The Statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

	Note	2011/2012		**2012/2013**	
		£'000	£'000	**£'000**	**£'000**
Income					
Council Tax	51		109,286		**110,409**
Government Grants	54		1		**0**
Income from Business Rates	52		81,288		**83,325**
			190,575		**193,734**
Expenditure					
Precepts and Demands:					
City of Sunderland		95,128		**96,356**	
Tyne and Wear Fire and Rescue Authority		5,896		**5,972**	
Northumbria Police		6,744	107,768	**6,830**	**109,158**
Business Rates - Payment to pool	52	77,454		**80,616**	
Business Rates - Cost of collection and other allowances.	52 & 53b	3,834	81,288	**2,709**	**83,325**
Amounts Written Off:					
Council Tax	53a		381		**428**
Provision for uncollectable amounts:					
Council Tax			207		**0**
			189,644		**192,911**
Net Income (Deficit) for the Year			931		**823**
Add balance b/fwd from previous year			1,894		**2,325**
Less Amounts transferred to General Fund					
Council Tax Surplus			(500)		**(500)**
Fund Balance Carried Forward at 31 March	55		2,325		**2,648**

Notes to the Collection Fund Account

51 – Income from Council Tax

Council Tax income derives from charges raised according to the value of residential properties. All properties are classified into one of 8 valuation bands. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council and dividing this by the Council Tax Base. This basic amount of Council Tax for a Band D property, £1,342.80 for 2012/2013, (£1,342.80 for 2011/2012), is multiplied by the proportion specified for the particular band to give an individual amount due.

Council Tax bills are based on the following proportions:

Band	Proportion
A	0.67
B	0.78
C	0.89
D	1.00
E	1.22
F	1.44
G	1.67
H	2.00

The calculation of the estimated, adjusted Band D is shown below and gives the amount of Council Tax which would be raised over each Band for every £1 of Council Tax charged by the Council. This is more commonly known as the Council Tax Base.

Band	2011/2012 £ p	**2012/2013 £ p**
A	**43,630.75**	**44,060.39**
B	**11,320.33**	**11,614.51**
C	**12,476.93**	**12,650.80**
D	**7,290.22**	**7,342.65**
E	**3,223.52**	**3,284.43**
F	**1,303.37**	**1,322.34**
G	**899.15**	**901.36**
H	**22.55**	**25.28**
	80,166.82	**81,201.76**

The income of £110,408,844 for 2012/2013, (£109,286,032 for 2011/2012), is receivable from the following sources:

	2011/2012 £'000	**2012/2013 £'000**
Billed to Council Tax Payers	82,596	**84,058**
Council Tax Benefits	26,690	**26,351**
Total	109,286	**110,409**

Notes to the Collection Fund Account (continued)

52 – Income from (National Non Domestic Rates) Business Rates

Under the revised arrangements for business rates, the Council collects business rates for its area which are based on local rateable value multiplied by a uniform rate. The total amount, less certain reliefs and other deductions is paid to a central pool managed by Central Government. The contribution due from the Council to the National Non Domestic Rates Pool for 2012/2013 can be analysed as follows:

	2011/2012		**2012/2013**	
	£'000	£'000	**£'000**	**£'000**
Gross Rates Collectable		81,288		**83,325**
Less:				
Costs of Collection Allowance	(329)		**(334)**	
Other Allowances and Adjustments Reclaimable	(2,489)		**(1,621)**	
Business Rates amounts Written Off	(1,016)	(3,834)	**(754)**	**(2,709)**
Amount Payable to Pool		77,454		**80,616**

Central Government, in turn, pays back to authorities their share of the pool based on a standard amount per head of the local adult population. For 2012/2013 the Council received a contribution from the pool of £145,367,560 which is payable directly to the General Fund, (in 2011/2012 this figure was £120,771,129).

The Total Business Rateable value as at 31 March 2013 was £216,079,910 (the value as at 31st March 2012 was £217,160,151). The Business Rates Multiplier (poundage) for 2012/2013 was 45.8 pence compared to the previous year's figure of 43.3 pence. For businesses that qualified for small business relief the Business Rate Multiplier was 45.0 pence in 2012/2013, (compared to 42.6 pence in 2011/2012).

53 – Amounts Written Off During the Year

a) Council Tax
Once all actions to recover outstanding debt have been exhausted, the Council will write off uncollectable debt in accordance with proper accounting practice. In 2012/2013 £427,819 (£381,067 for 2011/2012) was written off with most of the sums involved relating to bankruptcy, death and where all actions have failed to collect the debt over a period of years. It should be noted that the amounts written off were already included in the accounts as a provision for bad debts, and as such has already been accounted for in a previous period. To put this figure into context, the amount written off compared to the collectable Council Tax for 2012/2013 represents 0.39% (2011/2012 was 0.35%) of the total sum.

b) Business Rates
In 2012/2013 £754,346 was written off, (2011/2012 £1,016,422), with most of the sums involved relating to bankruptcy, death and where all actions have failed to collect the debt over a period of years. It should be noted that the amounts written off were already included in the accounts as a provision for bad debts. This affects the payments to the National NNDR Pool and not the Council's resources. To put this figure into context, the amount written off compared to the collectable Business Rates for 2012/2013 represents 0.91% (2011/2012 was 1.24%) of the total sum.

54 – Government Grants

	2011/2012 £'000	**2012/2013 £'000**
Transitional Relief Grant	1	**0**

55 – Fund Balance

The fund balance can be analysed as follows:

	2011/2012 £'000	**2012/2013 £'000**
Sunderland City Council	2,053	**2,339**
Northumbria Police Authority	145	**165**
Tyne & Wear Fire and Rescue Authority	127	**144**
Total Collection Fund Balance	2,325	**2,648**

The amounts of the Collection Fund balance relating to the Northumbria Police Authority and the Tyne and Wear Fire and Rescue Authority are shown in the Balance sheet as creditors, as the amounts of £164,959 and £144,219 are effectively owed to these authorities. The amount of the Collection Fund balance relating to the Council of £2,339,181 is shown in Reserves which forms part of the Net Worth of the Council in the Balance Sheet.

Glossary of Terms

Accrual
A sum included in the final accounts to cover income or expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received/made by the end date of the period for which the accounts are prepared.

Accounting Policies
Those principles, bases, conventions, rules and practice applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through:

- recognising
- selecting measurement bases for, and
- presenting assets, liabilities, gains, losses and changes to reserves

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or balance sheet it is to be presented.

Acquired Operation
Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. Acquired operations are those operations of the local authority that are acquired in the period.

Actuarial Gains and Losses
For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses) or
- the actuarial assumptions have changed.

Agency Services
Services which are performed by or for other authorities or bodies, where the authority/body responsible for the service reimburses the authority carrying out the work for the cost of the work carried out.

Assets
Items of worth which are measurable in terms of money (value). Current assets are ones that may change in value on a day-to-day basis (e.g. Inventories). Non-current assets are tangible assets that yield benefit to the City Council and the services it provides for a period of more than one year.

Audit Commission
Is an independent body established by the 1982 Local Government Finance Act, which is responsible for appointing auditors to local authorities.

Balance Sheet
A statement of the recorded assets, liabilities and other balances at a specific date usually at the end of an accounting period.

Balances
The capital or revenue reserves of the Council made up of the accumulated surplus of income over expenditure on the General Fund or any other fund.

Capital Charge
The charge to the services for the use of non-current assets. As a minimum, the capital charge must cover the annual provision for depreciation, where appropriate, plus a capital financing charge determined by applying a specified notional rate of interest to the net amount at which the asset is included in the balance sheet.

Capital Expenditure
Expenditure on the acquisition or provision of tangible assets which have a long term value to the City Council, e.g. land, purchase of existing buildings, erecting new buildings, purchase of furniture and equipment.

Glossary of Terms (Continued)

Capital Financing Charges
The annual charge to the Revenue Account in respect of the minimum revenue provision and interest on money borrowed together with leasing rentals.

Capital Financing Requirement
The capital financing requirement is one of the indicators that must be produced as part of the CIPFA prudential code. This measures the authority's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and the next two financial years.

Capital Grants
Grants received towards capital expenditure on a particular service or project.

Capital Receipts
Money received from the sale of land or other capital assets. A proportion of capital receipts must be paid to the government on housing assets held within a Housing Revenue Account. This is pooled and redistributed nationally. For non-housing authorities capital receipts are held by the authority and can be used to pay for any kind of capital expenditure, to repay debt, to meet premiums on early debt repayments and to meet liabilities under credit arrangements.

Class of Non-Current Assets
The classes of non-current assets required to be included in the accounting statements are:

Property, Plant and Equipment
- Council Dwellings
- Other land and buildings
- Vehicles, Plant, Furniture and Equipment
- Infrastructure assets
- Community Assets
- Surplus Assets

Investment Property
Heritage Assets

Further analysis of any of these items should be given if it is necessary to ensure fair presentation.

Code of Practice on Local Authority Accounting in the UK
'The Code' specifies the principles and practices of accounting to give a 'true and fair' view of the financial position and transactions of the Council.

Collection Fund
The fund maintained by the City Council into which are paid the amounts of Council Tax and Non-Domestic Rates which it collects and out of which are to be paid precepts issued by major precepting authorities, its own demands and payments into the NNDR pool.

Community Assets
These are assets that the City Council intends to hold in perpetuity, which have no determinable finite useful life and in addition may have restrictions on their disposal. Examples include parks, historical buildings not used for operational purposes, works of art, museum exhibits and statues.

Consistency
The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Constructive Obligation
An obligation that derives from an authority's actions where:
- by an established pattern of past practice, published policies or a sufficiently specific current statement, the authority has indicated to other parties that it will accept certain responsibilities and
- as a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Glossary of Terms (Continued)

Contingent Asset
A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the local authority's control.

Contingent Liability
A condition which exists at the balance sheet date, which may arise in the future but where the outcome will be confirmed only on the occurrence or non-occurrence of one or more future events.

Contingencies
Sums set aside as a provision for liabilities which may arise in the future but which cannot be determined in advance.

Corporate and Democratic Core
The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

Council Tax
The form of local taxation operated from April 1993, based on properties.

Creditors
Amounts owed by the City Council for goods and services provided where payment has not been made at the date of the balance sheet.

Current Service Cost (Pensions)
The increase in the present value of a defined benefit scheme's liabilities expected to rise from employee service in the current period.

Curtailment
For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- termination of employee's service earlier than expected, for example as a result of closing a factory or discontinuing a segment or a business, and
- termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify for only reduced benefits.

Debt Outstanding
Amounts borrowed to finance capital expenditure that are still to be repaid.

Debtors
Sums of money due to the City Council but not received at the date of the balance sheet.

Defined Benefit Scheme
A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Defined Contribution Scheme
A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciation
The measure of the wearing out, consumption, or other reduction in the useful economic life of a non-current asset, whether arising from use, the passage of time or obsolescence through technological or other changes.

Direct Service Organisation (DSO)
The term is used to cover both Direct Labour Organisations (DLOs) established under the Local Government, Planning and Land Act 1980 and DSOs established under the Local Government Act 1988.

Glossary of Terms (Continued)

Discontinued Operations
Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. An operation should be classified as discontinued if all of the following conditions are met:

- the termination of the operation is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved;
- the activities related to the operation have ceased permanently;
- the termination of the operation has a material effect on the nature and focus of the local authority's operations and represents a material reduction in its provision of services resulting in either form its withdrawal from a particular activity (whether a service or division of service or its provision in a specific geographical area) or from a material reduction in net expenditure in the local authority's continuing operations;
- the assets, liabilities, income and expenditure of operations and activities are clearly distinguishable physically, operationally and for financial reporting purposes.

Operations not satisfying all these conditions are classified as continuing.

Discretionary Benefits
Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the authority's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996, the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, or the Local Government (Discretionary Payments) Regulations (Northern Ireland) 2001.

Emoluments
All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

Estimation Techniques
The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gain losses and changes to reserves.

Estimation techniques implement the measurement aspects of accounting policies. An accounting policy will specify the basis on which an item is to be measured: where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique. Estimation techniques include, for example:

- methods of depreciation, such as straight line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a tangible non-current asset consumed in a period.
- Different methods used to estimate the proportion of debts that will not be recovered, particularly where such methods consider a population as a whole rather than individual balances.

Exceptional Items
Material items that derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Expected Rate of Return on Pension Assets
For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Expenditure
Amounts paid by the City Council for goods received or services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment - expenditure is deemed to have been incurred once the goods or services have been received, even if they have not yet been paid for (in which case the supplier is a creditor of the City Council).

Glossary of Terms (Continued)

Extraordinary Items
Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

Fair Value
The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

Fees and Charges
Income arising from the provision of services, e.g. for the use of recreation facilities.

General Fund
This accounts for the services of the City Council except for the Collection Fund. The net cost is met by the Council Tax, Government Grants and National Non Domestic Rates.

Going Concern
The concept that the authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

Government Grants
Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

Impairment
A reduction in the value of a non-current asset below its carrying amount on the balance sheet.

Income
Amounts due to the City Council for goods supplied or services rendered of either a capital or a revenue nature. This does not necessarily involve a cash payment - income is deemed to have been earned once the goods or services have been supplied even if the payment has not been received (in which case the recipient is a debtor to the City Council).

Infrastructure Assets
These are inalienable assets; expenditure on which is recoverable only by continued use of the asset created.
Examples of such assets are highways, footpaths, bridges, water and drainage facilities.

Intangible Non-Current Assets
These are non-financial non-current assets, such as software licences, that do not have physical substance but are identifiable and are controlled through custody or legal rights.

Interest Cost (Pension)
For a defined benefit scheme, the expected increase during the period is the present value of the scheme liabilities because the benefits are one period closer to settlement.

International Financial Reporting Standards (IFRS) / International Accounting Standards (IAS)
Standards issues by the International Accounting Standards Board (IASB) which present the Council's accounts in a consistent and comparable format with other organisations internationally.

Investments (Pension Fund)
The investments of the pension fund will be accounted for in the statements of that fund. However authorities are also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

Investment Properties
Interest in land and/or buildings in respect of which construction work and development have been completed; and which is held for its investment potential, any rental income being negotiated at arm's length.

Investments (Non-Pensions Fund)
A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. Investments should be so classified only where an intention to hold the investment

for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments other than those in relation to the pension fund, that do not meet the above criteria should be classified as current assets.

Leasing
The method of financing the provision of various capital assets to discharge the City Council's functions outside normal borrowing procedures but within criteria laid down in the Local Authorities (Capital Finance) Regulations 1990. There are different types of leases available of which the following are most commonly used:

Finance Leases - are leases that transfer substantially all of the risks and rewards of ownership of a non-current asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if, at the inception of the lease, the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

Operating Leases – are all leases other than a finance lease

Lender Option Borrower Option Loans (LOBO)
A LOBO is a type of loan instrument. The borrower borrows a principal sum for the duration of the loan period (typically 20 to 50 years), initially at a fixed interest rate. Periodically (typically every six months to 3 years), the lender has the ability to alter the interest rate. Should the lender make this offer, the borrower then has the option to continue with the instrument at the new rate or alternatively to terminate the agreement and pay back the principal sum with no other penalty.

Liabilities
Amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the balance sheet date.

Liquid Resources
Current asset investments that are readily disposable by the authority without disrupting its business and are either: readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

Loans Outstanding
The total amounts borrowed from external lenders for capital and temporary revenue purposes but not repaid at the balance sheet date.

Long Term Contracts
A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long term contracts if they are sufficiently material to the activity of the period.

Minimum Revenue Provision
Is the minimum amount which must be charged to an authority's revenue account each year and set aside as a provision for credit liabilities, as required by the Local Government Act 1989.

Glossary of Terms (Continued)

National Non-Domestic Rate (NNDR)
With effect from April 1990 all non-domestic properties were revalued and the Government determines a national rate poundage every year which is applicable to all local authorities. Local authorities continue to collect the non-domestic rate but the proceeds are pooled and distributed by Central Government on the basis of an authority's adult population.

Net Book Value
The amount at which non-current assets are included in the balance sheet, that is their historical cost of current value less the cumulative amounts provided for depreciation.

Net Current Replacement Cost
The cost of replacing or recreating a particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net Debt
The authority's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference should be to net funds rather than net debt.

Net Realisable Value
The open market value of the asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred in realising the asset.

Non-Operational Assets
Non-current assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

Operational Assets
Non-current assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

Past Service Costs
For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Post Balance Sheet Events
Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

Precept
The amount levied by various authorities (e.g. the Tyne and Wear Fire and Rescue Authority) which is collected by the Tyne and Wear Councils on their behalf.

Prior Period Adjustments
Those material adjustments applicable to prior periods arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Projected Unit Method
An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases and:
- the accrued benefits for members in service on the valuation date.

Glossary of Terms (Continued)

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

Provisions
These are sums set aside to meet liabilities or losses which it is anticipated will be incurred but where the amount and / or the timing of such costs is uncertain.

Private Finance Initiatives (PFI)
PFIs are methods of funding/acquiring assets such as schools, but the supplier of the building is usually an agreed contractor or bidder, usually over a 25 year term. The Council pays for the use of the asset by means of a unitary charge and can acquire the asset after this term if included in the terms of the contract. Up until this point the Council does not own the asset and simply pays for the use of the asset. Government grant is available to assist authorities who enter into these arrangements, however, known as PFI credits. These have a direct impact upon the level of government grant paid each year to help pay for the scheme.

Prudence
The concept that revenue is not anticipated but is recognised only when realised in the form of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

Prudential Framework
One of the principal features of the Local Government Act 2003 was to provide the primary legislative requirements to introduce a new prudential regime for the control of Local Authority capital expenditure. The regime relies upon both secondary legislation in the form of regulations, and a prudential code which has been published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Under the prudential framework local authorities are free to borrow without specific government consent if they can afford to service the debt without extra government support. The basic principle is that authorities will be free to invest as long as their capital spending plans are affordable, sustainable and prudent. As a control mechanism to ensure this occurs all authorities must follow the prudential code published by CIPFA. This involves setting various prudential limits and indicators that must be approved by the Council before the start of the relevant financial year as part of their budget setting process.

Public Works Loan Board (PWLB)
A Central Government agency, which lends money to Local Authorities at lower interest rates than those generally available from the private sector. Local authorities are able to borrow a proportion of their requirements to finance capital spending from this source.

Related Parties
Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Examples of related parties of an authority include:

- central government;
- local authorities and other bodies precepting or levying demands on the Council Tax;
- its subsidiary and associated companies;
- its joint ventures and joint venture partners;
- its members;
- its chief officers; and
- its pension fund.

Examples of related parties of a pension fund include its:

- administrating authority and its related parties;
- scheduled bodies and their related parties; and
- trustees and advisors.

Glossary of Terms (Continued)

These lists are not intended to be comprehensive.

For individuals identified as related parties, the following are also presumed to be related parties:

- members of the close family, or the same household; and
- partnerships, companies, trusts or other entities in which the individual, or a member of their close family or the same household, has a controlling interest.

Related Party Transaction
A related party transaction is the transfer of assets or liabilities or the performance of services by, to, or for, a related party irrespective of whether a charge is made. Examples of related party transactions include:

- the purchase, sale, lease, rental or hire of assets between related parties;
- the provision by a pension fund to a related party of assets or loans, irrespective of any direct economic benefit to the pension fund;
- the provision of a guarantee to a third party in relation to a liability or obligation of a related party;
- the provision of services to a related party, including the provision of pension fund administration services;
- transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, Rents and payable of benefits.

This list is not intended to be comprehensive.

The materiality of related party transactions should be judged not only in terms of their significance to the authority, but also in relation to its related party.

Renewals Accounting
Where renewals accounting is adopted, the level of annual expenditure required to maintain the operating capacity of the infrastructure asset is treated as depreciation charged for the period. Actual expenditure is capitalised as incurred. Renewals accounting may only be used for infrastructure assets.

Research and Development
Expenditure falling into one or more of the following broad categories:

- pure (or basic) research: experimental work undertaken primarily to acquire knowledge.
- applied research: original investigation undertaken to gain knowledge towards a specific practical objective.
- development: use of knowledge to produce new or substantially improved materials, devices, products or services, to install new processes or systems prior to the commencement of commercial production or commercial applications, or to improve substantially those already produced or installed.

Reserves
These are sums set aside to meet possible future costs where there is no certainty about whether or not the costs will actually be incurred.

Residual Value
The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

Retirement Benefits
All forms of consideration given by an employer in exchange for services rendered by employees that are payable after completion of employment. Retirement benefits do not include termination benefits payable as a result of either:

- an employer’s decision to terminate an employee’s employment before the normal retirement date or
- an employee’s decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

Glossary of Terms (Continued)

Revenue Balances
These are the accumulated surpluses on the General Fund. They can be applied to reduce borrowing, reduce the Council Tax, or held to be applied in future years.

Revenue Contributions
The method of financing capital expenditure directly from revenue. The City Council may determine that certain capital schemes should be financed in this way or alternatively may include a prescribed sum in the revenue budget for this purpose.

Revenue Expenditure
Expenditure incurred on the day-to-day running of the City Council, the costs principally include employee expenses, capital financing charges and general running costs.

Revenue Expenditure Funded by Capital under Statute
Items of capital expenditure, which do not result in, or remain matched by, tangible non-current assets. Revenue Expenditure Funded by Capital under Statute is charged to revenue in the year in which the expenditure is incurred.

Revenue Support Grant (RSG)
A grant paid by Central Government to every Local Authority to help to finance its expenditure generally and not specific services. The grant helps to bridge the gap between Council Tax and NNDR income on one hand and the total assessment of the City Council's need to spend on the other. The payment of RSG attempts to ensure that differences in spending needs and resources between authorities are equalised, in order to permit each authority to support a standard level of spending.

Scheme Liabilities
The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

SeRCOP
The CIPFA Service Reporting Code of Practice (SeRCOP) replaced the previous Best Value Accounting Code of Practice (BVACOP). SeRCOP applies to all Local Authorities from the 1 April 2012 for the preparation of budgets, performance indicators and Statement of Accounts. The aim of SeRCOP is to establish proper practice with regard to consistent financial reporting for services.

Settlement
An irrecoverable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- the purchase of an irrecoverable annuity contract sufficient to cover vested benefits: and
- the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

Specific Grants
Government grants to Local Authorities in aid of particular services, e.g. magistrates court grant.

Inventories
Comprises the following categories:

- goods or other assets purchased for resale
- consumable goods
- raw materials and components purchased for incorporation into products for sale
- products and services in intermediate stages of completion
- long term contract balances
- finished goods

Supported Capital Expenditure
Government provides support for capital expenditure in one of two ways:

- Supported Capital Expenditure (Revenue);
- Supported Capital Expenditure (Capital).

Glossary of Terms (Continued)

The Supported Capital Expenditure (Revenue) is in effect revenue support through the Revenue Support Grant System for borrowing. The Supported Capital Expenditure (Capital) is a capital grant given by government.

Total Cost
The total cost of a service or activity includes all costs, which relate to the provision of the service (directly or bought in) or to the undertaking of the activity. Gross total cost includes employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and capital charges. This includes an appropriate share of all support services and overheads, which need to be apportioned.

Trust Funds
Funds administered by the City Council on behalf of charitable organisations and / or specific organisations.

Unapportionable Central Overheads
These are overheads for which no user benefits and should not be apportioned to services.

Unsupported Borrowing
Under the Prudential Framework, the facility to undertake what is known as 'unsupported borrowing' is available. This is borrowing to fund capital expenditure where no support or provision is made by the government to fund this borrowing. In deciding upon whether to undertake unsupported borrowing regard is required to be had to:

- the prudential indicators which are designed to assess whether capital investment needs are affordable, sustainable and prudent;
- the effect on the revenue budget of any additional costs incurred.

Useful Life
The period over which the authority will derive benefits from the use of a non-current asset.

Vested Rights
In relation to a defined benefit scheme, these are:

- for active members, benefits to which they would unconditionally be entitled on leaving the scheme;
- for deferred pensioners, their preserved benefits:
- for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses or other dependants.